

سكنا على العالم

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

Monday October 8 1990

POLAND

Walesa legend faces tough electoral test

Page 3

D 8523A

World News

EC leaders see Saddam in power after leaving Kuwait

European Community governments appear to be coming round to the view that President Saddam Hussein of Iraq may well survive in power even if he succumbs to international pressure and withdraws from Kuwait.

There were also suggestions at the weekend that the Soviet Union was preparing to step up its diplomatic involvement in resolving the crisis.

Page 18

UAE premier dies

The ruler of Dubai, Sheikh Rashid bin Said al-Maktoum, vice-president and Prime Minister of the United Arab Emirates, has died. Dubai television reported.

More riots in Osaka

More than 1,500 rampaging workers in Osaka set fire to cars and tried to lay siege to a police station in the fifth day of rioting in Japan's second largest city. Page 4

Kerry Packer III

Kerry Packer, widely regarded as Australia's richest man, was seriously ill in hospital after suffering a heart attack while playing polo. Page 4

Indian austerity

India's Finance Ministry is drawing up austerity measures before an anticipated government decision to seek a loan from the IMF. Page 4

Saumarez triumphs

Saumarez, bought just four months ago by the owner and star of the Los Angeles Kings ice hockey team, surprised the favourites to win Europe's richest horse race, the Prix de l'Arc de Triomphe.

Business Summary

Tokyo bank chief resigns over scandal

A widening stock market scandal in Japan has brought down Ichiro Iwata, chairman of Sumitomo Bank, one of the country's biggest banks. Mr Iwata announced his intention to resign and take responsibility for the alleged involvement of a branch manager in illegal loans totalling ¥24bn (\$173m) made to stock market speculators. Page 18

ROBERT Maxwell announced agreement to sell his Italian consumer publishing operation - MCC Italia - in a deal worth \$90m (\$113m). Page 20

POLLY Peck International believes it needs no more than \$200m (\$270m) to bridge its immediate liquidity gap if bank creditors agree this week to give it a longer breathing space on debt. Page 20

CANADA'S banking industry appears to be smoothing the way for a giant merger or takeover involving some of the country's biggest financial institutions. Page 21

UK electricity groups may try to win telecommunications business after their planned December privatisation. Page 9

COMPAGNIE Europenne d'Acrobatisme (CEA), Europe's second largest aerial battery company, nearly doubled first half net profits from FF5.2m (\$800,000) to FF10.2m. Page 20

PIAGGIO, Italian engineering company which makes Vespa mopeds, has taken a 26 per cent stake in LMC, quoted Indian motor-scooter maker, as part of a joint venture to develop the production of two and three-wheeled vehicles in India. Page 21

BRITISH Steel increased its exports to the former West Germany by 61 per cent in the first half of this year. Page 3

Chancellor says priority is to cut UK inflation level to below those of European partners

Timing of ERM entry was not political, claims Major

By Peter Norman in London and Stefan Wagstyl in Tokyo

BRITAIN'S decision to enter the Exchange Rate Mechanism of the European Monetary System is an essential step to combat inflation, Mr John Major, the Chancellor of the Exchequer, said yesterday.

The chancellor insisted during a television interview yesterday that the timing of the move was just ahead of the ruling Conservative Party's annual conference tomorrow and immediately after the opposition Labour Party's conference last week - was not politically motivated.

He denied that the purpose of ERM entry was to engineer a "boomlet" in the British economy through further cuts in interest rates before the general election that must be held by July 1992.

Saving announced on Friday a one percentage point cut in bank base rates to 14 per cent, he said he would "of course" raise interest rates again if monetary conditions pointed to an inflationary problem in the economy.

During the interview, Mr Major hinted strongly that the government would not be able to keep public spending within the £192.5bn (\$361.52bn) total already set for the financial year beginning next April 1.

There were "real pressures" to lift spending in certain areas as the economy slowed down, he said, while the government was also determined to sustain the pledges given to meet certain guaranteed levels of social benefits.

But throughout the interview, the chancellor stressed that his priority was to reduce inflation, first to the level of Britain's European partners and then below that level.

Inflation, he said, had bedev-



John Major, UK Chancellor of the Exchequer, preparing a speech at home yesterday

Britain's failure to consult angers system partners

By David Buchan in Brussels

IT was billed, in London at least, as a formality - approval of sterling's entry into the Exchange Rate Mechanism by the EC Monetary Committee meeting in Brussels on Saturday.

But if Mr Nigel Wicks of the UK Treasury and Mr Andrew Crockett of the Bank of England ever thought that their 24 colleagues on the committee would simply pop the champagne corks and nod sterling into the party grid for Europe's currencies, they were quickly disabused of the notion.

The other senior finance ministry and central bank officials - two from each EC state and the European Commission - grumbled that by its unilateral announcement during Friday trading of the rate and fluctuation margin at which it intended to enter the ERM, the UK government had unfairly pre-empted what should have been a confidential negotiation with its EC partners.

Mr John Major, UK chancellor of the exchequer, will get a formal complaint in the report that Mr Mario Sarcinelli, director-general of the Italian Treasury who chairs the Monetary Committee, presents to today's meeting of EC finance ministers in Luxembourg.

At the Saturday meeting, Britain's EC partners voiced concerns that went far beyond the procedural. Indeed, Mr Jacques Delors, the European Commission president, got rather over-enthusiastic and got finance ministers to jet in yesterday for a special meeting to discuss the knock-on effect of the UK move for economic and monetary union (Emu).

The ministers declined, seeing no reason why such a discussion could not wait another 24 hours until they gather today in Luxembourg.

Apart from giving UK officials a wiggling on procedure, the Monetary Committee's discussion focused on:

● The rate. Mr Sarcinelli argued for change, any change, in the UK's proposed central rate of DM2.95 - simply to teach the British that they could not dictate to their new ERM partners. More substantively, Mr Hans Eismann, the senior Bundesbank board member, argued that sterling should come in at a lower rate that would be sustainable over the longer term.

Taking a shorter-term view, officials from France and some other countries advocated a higher rate. Otherwise, they forecast, the pound will behave on entry just like the peseta and bounce right up to the top of its band.

In the end, DM2.95 was accepted as a fait accompli.

● The margin. The communiqué talked of sterling fluctuating at 6 per cent "for a transitional period". In fact, only the Commission complained on Saturday that the UK had not immediately plumped for the tighter 2.5 per cent band. One Commission official said the UK government has missed a chance to send a whole-hearted signal of its commitment to exchange rate stability, and that most EC governments were "over-worried" about realignment.

Since the presence of all important currencies within the narrow ERM band is increasingly being touted as a Continued on Page 18

Financial markets braced for sharp gains in sterling

By Rachel Johnson, Economics Staff, in London

INTERNATIONAL financial markets are braced for more frantic trading and sharp gains in sterling and UK share prices today as Britain becomes a full member of the European Monetary System and interest rates come down by one percentage point.

Equities are expected to open up to 40 points higher to register the unofficial gains of Friday's one-hour extension of stock market trading.

The FT-SE 100 reversed a 35-point fall between 4pm on Friday - when the UK Treasury announced - flashed across trading screens - to

close up 73.5 at 4.30pm when the index was calculated. After the extra hour, traders reported a further steep rise to well above the official close of 2,145.5.

The announcement caught many dealers short of stock. Analysts expect trading to be equally hectic at the start of the new account today if institutions and foreign investors return to UK equities. The market has been shunned recently amid growing evidence of a UK recession and fears of war in the Gulf.

Sterling is this week expected to

rise quickly towards DM3.15 - the upper limit of 6 per cent above its central rate of DM2.95 - as investors seek to profit from the currency's future stability in the exchange rate mechanism. However, the Treasury said yesterday it did not expect that the pound would be so strong that a revaluation would be necessary in the medium term.

A revaluation would require setting the pound's central rate nearer to DM2.45, the level the pound closed at on Friday. The Treasury pointed out that the pound had weathered a pronounced economic slowdown and a rise in oil prices to \$40 a barrel because of the Gulf crisis. The currency had always stayed within a fluctuation band of plus or minus 6 per cent.

The cut in base rates which accompanies sterling's ERM entry this morning has not detracted from sterling's status as a high-yielding currency. The pound gained an unprecedented 5 pennings against the D-Mark on Friday.

Analysts said further interest rate cuts were possible because the gov-

ernment had revealed its eagerness to bring base rates down in the run-up to a general election. "Further cuts are likely to temper enthusiasm for sterling and reduce the amount of time it spends at the top of its range," said Mr John Sheppard, economist at Warburg Securities.

In the short term, sterling is expected to appreciate further against the dollar and D-Mark. But Goldman Sachs, the US-owned investment house, warned that "the best time to sell pounds was always likely to be after ERM entry."

US BUDGET

Congressional leaders prepare new package

By Peter Riddell, US Editor, in Washington

A NEW US budget package was last night being put forward by congressional committees in the hope of breaking the bitter stalemate which has resulted in the formal shutdown of the US government since midnight on Friday.

Essential services, such as the armed forces and air traffic control, have been kept open and the main impact has so far been felt by tourists unable to visit national parks and museums in Washington.

Because today is a federal holiday, Congress has until tomorrow morning to agree the outlines of a budget agreement and temporary financing of the government to prevent workers being laid off on a large scale.

The new package will still seek to reduce the federal deficit by \$500m over five years, but will change some of the unpopular elements which led to the overwhelming defeat of the original budget agreement by the House of Representatives early on Friday morning.

A budget resolution being circulated on Capitol Hill last

night set out broad instructions to congressional committees which will now have scope to alter the details, ahead of final votes in about two weeks. There was no reference to specific spending levels or tax cuts. The administration will be seeking to minimise the changes to maintain the thrust of deficit reduction. Vice President Dan Quayle yesterday predicted that 90 per cent of the defeated budget deal would remain.

Both Mr Tom Foley, the Democratic House Speaker, and Mr Nicholas Brady, the Treasury Secretary, yesterday agreed there would have to be modifications in the proposed \$80bn savings in Medicare provision for the elderly.

Mr Foley also suggested that the proposed increases in duty on home-heating oil, which led to big opposition from the north-east, and changes in unemployment compensation would be reviewed. He said the whole question of tax fairness (including tax relief for business) would be reconsidered.

Some Democrats have also

called for larger savings in defence spending.

The controversial question of a cut in capital gains tax - dropped from last week's agreement - is likely to be revived and some congressional Republicans have suggested they might be willing to accept higher income tax rates as a trade-off. However, Mr Richard Darman, the budget director, expressed doubts since once rates were raised for some, then soon income tax rates would be raised for everyone.

To maintain pressure and "discipline", Mr Bush on Saturday vetoed legislation approved by Congress to extend temporary funding of the government until the end of this week. He said it was necessary to say, "this is not a time for business as usual. The deficit is too important to the American people."

Mr Bush's tough stand - a response to the humiliating rejection of the first budget - ended last week's mood of bipartisan co-operation with the congressional leadership.

Mr Bush is facing considerable criticism for failing to provide effective leadership in his most serious domestic setback.

Mr Foley described the veto as "unnecessary, unjustified, harmful, both to the negotiating process of reaching a bipartisan agreement and to the interests of millions of Americans who will be affected by a shutdown of government". He argued that the president should keep the government going while everyone tried to resolve the budget dispute.

The affair has provoked a good deal of recrimination over the heavy-handed lobbying of House Republicans by Mr Darman and, in particular, Mr John Sununu, the White House Chief of Staff. They have been criticised by Mr Bob Haldeman and Mr John Ehrlichman, President Nixon's two senior staff disgraced for their role in the Watergate affair. Mr Sununu said yesterday that the White House did not expect to "go through in one fell swoop without any china being broken". Congress and the neo mental-ity, Page 18

James Capel UK Performance

THE BUCKFAST HONEY BEE. Arguably the world's finest bee, it was bred at Buckfast Abbey by Brother Adam OBE, who began his work on bees in 1916. It is a reliable, industrious worker, highly resistant to disease and a prolific producer of outstandingly delicious honey.



James Capel's three UK funds work hard to achieve successful investment returns for your money over the long term.

The James Capel Capital Fund is designed to give you long-term capital growth, primarily from UK companies with above-average growth prospects.

The James Capel Income Fund invests in UK companies and aims to give a yield of around 25% higher

than that of the FT-A All-Share Index. And the James Capel UK Index Fund is designed to mirror the performance of the FT-A All-Share Index.

The choice is yours. To find out more about how to achieve growth of capital or income with less risk please contact your professional adviser or return the completed coupon or FREEPHONE 0800 289 505.

The right reward for the right risk

To: James Capel Unit Trust Management Limited, FREEPOST, London EC2B 3TB. Please send me more information on the James Capel Funds investing in the UK. No stamp required.

NAME _____
ADDRESS _____
POSTCODE _____
TELEPHONE _____



James Capel

UNIT TRUSTS FROM THE GLOBAL INVESTMENT HOUSE

Issued by James Capel Unit Trust Management Limited, 7 Duncannon Square, London EC2M 4HU. Membership of DMS, LAUTRO and UTA. James Capel refers to a group of companies with offices in London and all other major financial centres, which provides investment services in a variety of markets. REMEMBER THE PRICE OF UNITS AND THE INCOME FROM THEM MAY GO DOWN AS WELL AS UP AND ARE NOT GUARANTEED. FT 100

CONTENTS

THE MONDAY INTERVIEW

Mr Kenneth Baker, UK Conservative Party chairman, admits that Britain's decision to join the Exchange Rate Mechanism of the European Monetary System "plays to the (Conservative Party) conference theme of a strong and determined government". Page 24

| | | | |
|--------------------|-------|----------------------|-------|
| Overseas | 2-4 | Crossword | 29 |
| Companies | 22-23 | Currents | 29 |
| Britain | 24-25 | Editorial Comment | 16 |
| Companies | 26-27 | International bonds | 22-23 |
| Auto Reviews | 18 | Financial Diary | 29 |
| World Guide | 15 | Int. Capital Markets | 22-23 |
| Building Contracts | 19 | | |

FT SURVEYS THIS WEEK

Soviet Union Gorbachev faces test of control of the party and its relevance to the country. 18

Disarmament: Moscow agrees to be outmanoeuvred by Nato and eastern Europe. 2

Management: The ERM - no easy options for managers. 12

Editorial comments: Not nearly good enough: Still stalling on farm reform. 16

US: October August and September go down as the worst months ever for US junk bonds. 23

European Duty Free: Consumer's role may be crucial to the future. Survey, Section III

Italian Construction: No large-scale rationalisation likely. Survey, Section IV

Wall Street. 24-25, 29

Lex. 18

Management. 12

Monday Page. 24

Money Markets. 29

Observer. 16

Unit Trusts. 25-26

Weather. 18

Stock Markets. 24-25

Private Banking: Stock market turmoil and the talk of recession put private banks in Europe and the US on their mettle. Separate section, Tuesday.

TODAY:

Italian Construction: an industry at the crossroads. See pages 25-30.

European Duty Free industry: debate continues over the dismantling of duty structures. Separate section.

TUESDAY:

Private Banking: the personal touch. See panel, left.

WEDNESDAY:

Taiwan: a vibrant economy is facing an identity crisis.

FRIDAY:

North of England: the first signs of recession appear.

INTERNATIONAL NEWS

Timetable in doubt for US-Soviet nuclear arsenals pact

By Peter Riddell, US Editor, in Washington

THE timing of the completion of a US-Soviet treaty to reduce arsenals of strategic nuclear weapons looks uncertain despite lengthy talks between the two sides.

After talks with Mr James Baker, the US Secretary of State, in New York late last Friday, Mr Eduard Shevard-

nadze, the Soviet foreign minister, said progress had been made "on a number of complex issues." However, he was unable to say whether the treaty would be finished by the target date of December.

Mr Baker said work was still needed on the three outstanding issues of non-circum-

vention (notably a Soviet desire to limit US nuclear co-operation with Britain to the agreed sale of Trident submarine-launched missiles); whether Soviet "Backfire" bombers should be included; and whether the Soviet Union should be allowed to test and update the highly destructive

SS-18 missile. Both sides' negotiators have come under fire from respectively the Soviet military and US conservative critics of arms control for making too many concessions.

Part of the problem is that most attention has been centred on completing a treaty

substantially reducing conventional forces in Europe (CFE), due to be signed by heads of government of Nato and the Warsaw Pact in mid-November. At their meeting on Friday, Mr Baker and Mr Shevardnadze, who had announced agreement in principle on a CFE treaty late on Wednesday,

said they had tied up the loose ends on combat aircraft, helicopters and regional ceilings.

This includes a provision that would prevent each side from removing equipment from Europe before an agreement takes effect in order to evade the requirement that it should be destroyed.

Moscow gives ground in conventional weapons talks

Edward Mortimer looks at Soviet concessions clinching an agreement on reducing forces in Europe

THE Soviet Union has agreed to be out-numbered two-to-one in tanks and other land weapons in Europe by the combined forces of Nato and of the new east European democracies, while dropping its demand for naval forces to be included in the treaty limiting conventional forces in Europe (CFE).

These were the two key concessions wrested from Mr Eduard Shevardnadze, the Soviet foreign minister, by his US counterpart Mr James Baker in talks in New York last week, when they reached agreement in principle on all the main points of the treaty, covering all conventional forces between the Atlantic and the Urals. The treaty is to be signed by the 16 members of Nato and the six remaining members of the Warsaw Pact (the seventh, East Germany, having now ceased to exist).

Details of the agreement have now been disclosed by senior western diplomats in Vienna, where negotiations on the treaty have been going on since March last year. They regard the treaty, which is now certain to be signed in Paris next month, as the most significant arms control agreement ever achieved. It will codify a fundamental change in the European balance of power, and result in the destruction of vast quantities of Soviet equipment under verifiable conditions.

Mr Shevardnadze's apparently joking remark last week that "of course, the Soviet Union has made all the concessions" turns out to be almost literally true.

Distribution of the agreed totals of equipment among the east European countries will be thrashed out at a high-level Warsaw Pact meeting in Prague tomorrow and Wednesday, which may be attended by



Baker and Shevardnadze: concessions joke became true

the chiefs of staff of all six countries. But the point of greatest concern both to the Soviet Union and to its national allies - the proportion of the permitted totals in each category which can be held by any one country - was settled between Mr Baker and Mr Shevardnadze.

The principle at stake, known in the negotiators' jargon as "sufficiency", assumed crucial importance as a result of the democratic revolutions which swept through eastern Europe a year ago, causing the effective disintegration of the Warsaw Pact.

Formally the negotiation is still between two opposing alliances, but is based on the principle of equal ceilings for each of them in each category of weapons. But the political reality is that the Soviet Union no longer has any reliable allies, and that the east European states now share Nato's interest in limiting Soviet military strength.

Roughly 80 per cent of Warsaw Pact weapons in most categories belong to the Soviet Union, and until last week Soviet negotiators were struggling

to preserve that proportion or as close to it as possible, while the west was seeking to impose a ceiling of 30 per cent of the overall total (ie 60 per cent of one side's total).

The compromise reached in New York allows an overall percentage for ground equipment of 33.6 per cent. The actual totals allowed to each side, and the "sufficiency" levels allowed to any one country, are shown in the accompanying table.

Western negotiators estimate that these levels will require the Soviet Union to destroy 19,000 tanks, while Nato will have to destroy about 4,000. This is consistent with the main object of the treaty, from the western point of view, which is to remove the previous massive preponderance of Soviet conventional strength in Europe.

All surplus equipment has to be destroyed within three years, except that the US has now agreed that each side be allowed to convert 750 tanks and 3,000 armoured combat vehicles to civilian uses.

This was one of the few western concessions in last

| Conventional forces in Europe (CFE) | | | |
|-------------------------------------|---------|-------------|--------|
| Baker-Shevardnadze totals | | | |
| | polling | sufficiency | |
| Tanks | 20,000 | 13,300 | 33.25% |
| Armoured Combat Vehicles | 20,000 | 13,300 | 33.25% |
| Helicopters | 2,000 | 1,330 | 33.25% |
| Combat aircraft (all types) | 2,000 | 1,330 | 33.25% |

week's talks, and has still to be ratified by the US's Nato allies. Nato had been suspicious of the Soviet contention that tanks could be economically converted into tractors. Western negotiators now seem satisfied that "conversion" is so precisely defined as to make reconversion for military use more difficult and expensive than building new tanks from scratch. Both destruction and conversion will be subject to rigorous verification procedures.

There is some concern in Nato that the Soviet Union might be seeking to evade the requirement to destroy tanks by withdrawing them east of the Urals before the treaty comes into force. Thus the number of Soviet tanks in Europe has dropped from 41,000 at the beginning of 1989 to 24,000 now and is expected to fall to 21,000 by the end of the year.

There is nothing illegal about this, however, so long as the treaty is not in force. And the West can hardly complain about the withdrawal of Soviet tanks from Europe, after halting Mr Gorbachev's promise to withdraw 10,000 in December

1988, and the subsequent agreement to withdraw from east European countries, as positive developments of historic importance. Most western negotiators seem disposed to accept Soviet assurances that there is no sinister intent behind the withdrawals, and that the tanks in question will be destroyed in accordance with CFE procedures, or used to replace older tanks already in Asia, or in some cases sold for export.

The point is also made that tanks beyond the Urals cannot pose any immediate threat to western or even central Europe, and that once the treaty is in force reintroduction of them into Europe would be a clear violation.

The west hopes to win Soviet acceptance that the treaty should come into force on the date it is signed (November 19, 1990), rather than on ratification, so that tanks in Europe on that date will be subject to its provisions.

Another important Soviet concession last week was to agree to bring land-based naval aircraft within the scope of the treaty, without insisting that

the same apply to carrier-based aircraft. The US is firmly opposed to any naval arms control agreements, and especially so in the context of a treaty confined to one area of the world, given the intrinsically mobile and "global" nature of naval forces; but it was also determined not to allow the Soviet Union to exempt some of its land-based aircraft from the treaty by declaring them naval. It had apparently begun painting some of them blue. Mr Shevardnadze finally accepted this principle on Wednesday, after the negotiations had, in the words of one participant, come "right to the wire".

All limitations on manpower have been scrapped from the treaty. The ceilings on US and Soviet forces in central Europe agreed in Ottawa last February - 135,000 each, with an additional 30,000 for the US in western Europe - have already been overtaken by events.

The Soviet leadership decided in the summer that it attached greater importance to limiting the manpower of the united Germany than to that of the US, and Mr Gorbachev obtained from Chancellor Helmut Kohl a binding political commitment that this will not exceed 370,000 (of which ground and air forces together can be 345,000). This commitment will not be part of the CFE treaty, but it has been read into the negotiating record.

Nato is proposing follow-on negotiations with the same participants, known in the jargon as "CFE II", at which manpower levels could be discussed, so that Germany would not be the only country to accept limits on the size of its armed forces. The Soviet Union has not yet replied to this proposal, but the general assumption is that CFE II will begin in January.

Croatia, Slovenia urge new Yugoslav political structure

By Judy Dempsey in Vienna and Laura Silber in Belgrade

YUGOSLAVIA'S two western republics of Croatia and Slovenia have called for creation of a new political structure aimed at establishing an alliance of sovereign states. This confederal proposal would replace the crumbling federal system and, it is hoped, avert the possibility of the country sliding into civil war.

If the proposal were accepted by all six republics, it would formally put an end to the country's post-war structure as created by the late President Josip Tito.

But the plan, unveiled at the weekend, fails to address the future status of the ethnic minorities which are demanding their own autonomy within the republics.

The fragility of the current system was confirmed last week when the 600,000-strong Serbian minority in the republic of Croatia declared its autonomy, after blocking off all roads into Knin where the minority is concentrated.

The Serbs, many of whom now are heavily armed, believe that the new government of Croatia - elected last April - is determined to create a homogeneous republic of Croats.

Although Mr Franjo Tudman, the prime minister of Croatia, has attempted to moderate his nationalist views, the changing of place names in Zagreb, the capital, has fuelled suspicions by nationalist Serbs that their status in the republic will be downgraded.

of thousands of Serbs and Jews during the Second World War. The memory of the war, coupled with an age-old antipathy between Serbs and Croats, is exploited by Mr Slobodan Milosevic, the president of Serbia who is supporting the Serbs in Croatia.

Full control over the northern province of Vojvodina and the southern province of Kosovo, which President Tito caused to be carved out of Serbia as a means of containing the republic's political dominance.

But Serbia's control over the provinces has revived latent fears and animosities among Slovenes, Croats and Macedonians about Serbia's long-term intentions. Unlike the Soviet Union, where many of the republics are demanding sovereignty but where Mr Mikhail Gorbachev, the Soviet leader, is attempting to control disintegration by formulating a policy from the centre, the federal authorities in Yugoslavia wield no such power and central authority has broken down.

In addition, Yugoslavia is deeply split between those who want a confederal structure - Slovenia and Croatia - and those who want to retain the federal structures - Serbia and Montenegro.

To complicate matters, the republic of Bosnia-Herzegovina, which elects a new government next month, is divided between Serbs, Croats and Muslims. The co-existence of these ethnic groups is becoming increasingly undermined by the rise of nationalism. The forthcoming election will indicate if Sarajevo, the capital, will again become the focus of international attention as it did 76 years ago.

British Steel exports to Germany rise by 61%

By David Goodhart in Bonn

BRITISH Steel increased its exports into the former West Germany by 61 per cent in the first half of this year, according to Mr Rupprecht Vondran, president of the German Steel Industry Association.

Mr Vondran warned, in an interview with the Handelsblatt newspaper, that German steel makers should pay attention to the British steel "giant" which is not only increasing its exports to Germany but also increasing its presence inside the German market with its acquisition of Klockner-Werke's Troisdorf plant.

Mr Vondran said that steel imports into Germany had increased 10 per cent in the first half of this year while exports had fallen by 9.5 per cent.

The absolute quantity of British Steel's exports are still not that large - they have risen from 191,000 tonnes in

the first half of 1989 to 306,000 tonnes in the first half of this year - but Mr Vondran said: "British Steel clearly has its eyes on the German market".

He was also critical of the Bonn government for not fighting harder with the EC for better transitional arrangements for the East German steel industry.

He said that transitional arrangements on subsidies and social aid should have been extended for up to two years, as in the case of Spain's EC entry, as opposed to the actual deadline of the middle of next year.

Mr Vondran predicted that more than half of the former East Germany's 80,000 steel workers would lose their jobs.

The east produces about 8m tonnes of rolled steel a year, mainly in the town of Eisenhüttenstadt.

Ministers work on EC foreign policy

By John Wyles in Venice

EUROPEAN Community foreign ministers, forced by the Gulf crisis into an unprecedented degree of military and political co-ordination, began at the weekend to identify elements of a future common foreign policy which might also embrace security issues.

Informal talks near Venice, indicated, however, that the 12 would take only small, limited steps towards the ambitious objectives favoured by Italy and Belgium for transferring much greater competence to the EC on foreign policy and security matters.

Apart from long-standing hesitation from Ireland and Denmark about becoming involved in security discussions, it seems that no other member states are yet ready to move swiftly towards Italy's recommended merger with the EC of the Western European Union, in which nine European countries co-ordinate defence matters.

Long-term objective

Mr Gianni de Michelis, the Italian foreign minister, who hosted the talks, cheerfully admitted yesterday that such a fusion must be a long-term objective.

In preparing for the inter-governmental conference negotiations on political union scheduled for December, the meeting at the weekend served to highlight the considerable uncertainties about the policies which might be transferred to the EC and the procedures which would be adapted

to determine them.

France and Britain agreed that governments should still be free to take national foreign policy initiatives, but Mr Roland Dumas revealed that French thinking had arrived at a clearer shape than the British - Mr David Lloyd did not yet have any fixed views on the question of the EC taking some responsibilities for security.

Mr Dumas produced some proposals, previously discussed with his German counterpart, Mr Hans Dietrich Genscher, which would give heads of government in the European Council powers to determine the contents of a common foreign policy "on the basis of common values and interests".

He was ready to allow the use of qualified majority voting when foreign ministers were implementing European Council decisions and also to allow the Commission scope to suggest policy initiatives.

This adds up, none the less, to a far more inter-governmental approach to decision-making than is possible under current EC treaties.

Other governments are less interested than the French in raising the profile of the European Council - Mr Dumas also suggested that a vice-president of the council should be appointed for one or two years, with specific foreign policy responsibilities. He was against the time being any fusion of the WEU with the EC.

IF YOU NEED RELIABILITY, TRUST OKI NOT TO LET YOU DOWN.

In the laboratory of a hospital, an OKI Page Printer is silently printing important test results. In a place where every second counts where emergencies are part of everyday life, the doctors have to rely on their printer no matter what. But OKIs are designed to meet the highest standards of reliability. The printing is assured by the advanced patented LED technology. And before leaving the

factory, the 3 Page Printers and the 7 models of Pin Printers go through 27 rough and demanding tests. They're ready to face up to any real life situation. So if you're looking for a printer that doesn't require special treatment, you're looking for an OKI. For more information, see your OKI dealer. He'll tell you why the OKI printers' superiority in any condition is simply a fact of life.

OKI

OKI. BECAUSE NOTHING'S AS CHALLENGING AS THE REAL WORLD.

OKI Systems (UK) Ltd - 750/751 Deal Avenue - Slough Trading Estate - Slough - Berkshire SL1 4SH - Tel.: 0753-31292 - Fax: 0753-693797

PHARMACEUTICALS

The Financial Times proposes to publish this survey on:

29th October 1990

For a full editorial synopsis and advertisement details, please contact:

BILL CASTLE
on 071-873 3760

or write to him at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES
SURVEY & ADVERTISING DEPARTMENT

The Financial Times (Europe) Ltd
Published by the Financial Times
(Europe) Ltd, Frankfurt Branch,
Guldburgstrasse 34, 6000 Frankfurt-am-
Main 1; Telephone 069-7590; Fax
069-722677; Telex 416193 represented by
E. Hugo, Frankfurt/Main, and, as
members of the Board of Directors,
R.A.F. McClure, G.T.S. Damer, A.C. Miller, D.E.F. Palmer, London. Printed
Frankfurt Societäts-Druckerei
GmbH, Frankfurt/Main. Responsible
editor: Sir Geoffrey Owen, Financial
Times, Number One Southwark Bridge,
London SE1 9HL. The Financial Times
Ltd, 1990.

Registered office: Number One, South-
wark Bridge, London SE1 9HL. Com-
pany incorporated under the laws of
England and Wales. Chairman: D.E.F.
Palmer. Main shareholders: The Finan-
cial Times Limited, The Financial News
Limited. Publishing director: B. Hughes.
168 Rue de Rivoli, 75004 Paris Cedex
01. Tel: (01) 4297 0621; Fax: (01) 4297
0629. Editor: Sir Geoffrey Owen.
Printer: SA Nord, 15711 Rue de
Clichy, 91100 Roissy-CDG 1. ISSN:
ISSN 1148-2753. Commission Paritaire
No 6788SD.

Financial Times (Scandinavia) Out-
post 44, DK-1100 Copenhagen-K.
Danmark. Telephone (33) 13 44 41. Fax
(33) 935335.

INTERNATIONAL NEWS

Ex-Klansman draws votes in Louisiana primary

By Peter Riddell, US Editor, in Washington

MR DAVID DUKE, a former leader of the Ku Klux Klan who appeals to racial and economic worries of whites, has performed strongly in the race to become US senator from Louisiana, but failed to force a run-off contest next month.

Mr Duke, running as an unofficial Republican, won a high 44 per cent of the vote.

But incumbent Democratic Senator Bennett Johnston won 54 per cent of the vote and was therefore re-elected to a fourth term, although his margin was less than he hoped in face of the embarrassingly strong showing by Mr Duke.

Under Louisiana's unique electoral law, all candidates of whatever party compete in a first primary and only if one fails to capture more than 50

per cent do the two leading contenders face each other in a run-off.

Mr Johnston might have been forced into such a run-off had not Mr Ben Bagert, the official Republican candidate, withdrawn late on Thursday in a last-minute effort by the party leadership to block Mr Duke, who has ties to white-supremacist and Nazi groups and whose bookshop last year sold pro-Nazi literature.

Mr Duke at first said he would challenge the election in court on the grounds that absentee ballots for Mr Bagert should be included in the total vote.

These votes might have denied Mr Johnston the majority he needs to avoid a run-off. But later Mr Duke dropped the

Venezuela stands by economic reforms

By Joe Mann in Caracas

MR Carlos Andres Perez, Venezuela's president, said that his government would not alter its unpopular economic reform programme even though the country's oil export revenues have increased substantially this year due to the Gulf crisis.

Venezuela's national oil company, PDVSA, now estimates that 1990 petroleum export revenues will reach \$12.13bn - up \$1.8bn or 17 per cent - from projections made earlier this year. The new oil revenues should cover most of the government's fiscal deficit this year.

The jump in oil revenues provoked speculation that the government might delay or scrap economic reforms and turn to the unbridled spending schemes that characterised previous administrations. Mr Perez last year initiated a series of tough economic adjustment measures that have produced a sharp contraction in the economy and strong criticism from labour and the political opposition.

Soon after some reforms were announced last year, Venezuela was struck by rioting which left about 300 dead.

The Walesa legend faces a tough test as Solidarity leader seeks reins of power

Christopher Bobinski looks at Poland's divisive presidential election

POLAND'S presidential election on November 25 promises to be an exciting test of Mr Lech Walesa's claim on the country's leadership, now that his once close ally and adviser, Mr Tadeusz Mazowiecki, the prime minister, has decided to stand.

In the past the polls have shown Mr Mazowiecki ahead of the Solidarity leader, but now the gauntlets are down both are enjoying more or less equal popular support. Both come from the Solidarity camp and many people are having difficulty distinguishing policy differences.

Indeed, what may decide the end is whether Poles will choose to identify with Mr Walesa, the charismatic shop floor electrician famed for hectoring communism, or Mr Mazowiecki, the intellectual who lacks his rival's common touch but better embodies the conventional image of a politician.

Warsaw taxi drivers are inclined to ask: "Shouldn't our president have a little more schooling?" - adding that Mr Walesa (who left school for work at 15) should stay where he is now, heading a trade union.

But there are powerful forces backing the Solidarity leader. Ten months into the govern-



Presidential rivals: Mazowiecki, left, and Walesa

ment's IMF-backed austerity programme Mr Walesa is promising to do something about rising unemployment and low incomes.

He also identifies with the provinces, ever resentful of Warsaw's dominance over the national life.

In addition, Mr Walesa is attracting the support of those activists who failed to win places in the administration as a result of Solidarity coming to

power last year.

These people are especially attuned to his promise that he will "accelerate" the replacement of former communist appointed cadres, whom Mr Mazowiecki has kept in place, partly as a result of his moderate approach and partly through a shortage of experienced administrators with the right opposition background.

Mr Mazowiecki will have to run a campaign on the

strength of his government's chequered record, without being able to make a direct attack on Mr Walesa, the repository of the Solidarity myth.

After all, Mr Mazowiecki was Mr Walesa's adviser for ten years and it was Mr Walesa who suggested that Mr Mazowiecki head the Warsaw Pact's first non-communist government, against the latter's very real misgivings.

The communist ancien regime establishment, afraid of fierce purges under Mr Walesa, favours Mr Mazowiecki.

He is also backed by the opposition establishment now in power - many of them dissenters from the Communist party - who despite the fact that the policies his government is pursuing are right-wing, are also vulnerable to a charge coming from the pro-Walesa populist right of "civic elitism".

On the other hand the politically influential Roman Catholic church, which would probably be happier with the loyal and predictable Mr Mazowiecki, has yet to signal its preference.

Indeed, it may choose not to back anyone openly, thus effectively injuring Mr Walesa's chances.

US union reaches settlement with Ford

THE United Auto Workers union in the US said yesterday that it and Ford Motor had reached a tentative settlement on a new three-year labour contract covering about 100,000 Ford hourly workers. Reuter reports from Dearborn.

Details of the pact were being withheld pending a meeting tomorrow of union leaders from around the US,

who must approve the pact before it is put before union rank-and-file members for ratification.

The UAW indicated that the pact with Ford closely mirrored the labour contract it recently reached with General Motors.

The GM contract, which was ratified by union members last week, features wage increases

and improved pension benefits.

It also established a multi-billion dollar fund to provide job and income security for workers.

Once the UAW-Ford pact is ratified, the union will move to Chrysler, the number three American car maker, to negotiate a separate labour agreement.

A cautionary tale of tax in the Reagan years

By Nancy Dunne in Washington

AS RONALD Reagan explained it, the 1981 Economic Recovery Tax Act would unleash the creative energies of entrepreneurs who would create new jobs for everyone else. As it turned out, the policy ignited a building binge which ended with half the country's savings and loans bankrupt, a 30 per cent oversupply of commercial property and an enormous backlog of unsold new homes.

The legislation also helped create 1m new millionaires, according to Kevin Phillips's controversial new book, *Politics of Rich and Poor*, which details the concentration of US wealth in the hands of 1 per cent of the population during the 1980s.

Mr Jim Kelly, a perspicacious, ambitious Easterner who was broke at the start of the decade, was one of the fortunate ones. He, and other high wage earners like him, benefited mightily from the three-year 25 per cent cut in federal income taxes.

An expensive divorce had left him with no usable assets in 1981. But Mr Kelly, the son of a New Jersey postman who had gone through college on a scholarship, had begun the traditional climb through corporate ranks. With a hefty salary and no taste for flashy living, he was perfectly placed to invest his considerable surplus cash in property when the Republican Administration came to power in 1981.

Tax write-offs were so generous that for seven years Mr Kelly, with complete legitimacy, paid little federal income tax. For four years he paid none at all.

As a salesman of high-tech equipment, Mr Kelly had saved \$50,000 by 1982. That was when he decided to treat himself to a \$75,000 "penthouse" condominium in a Maryland suburb.

The US was in a recession at the time, and the banks were hungry for borrowers, requiring only 10 per cent deposits on property.

At his estate agent's urging, Mr Kelly bought three flats - living in one and renting two others - to reduce his tax burden. Condominiums were ideal for his purpose. Exterior walls were maintained through the payment of special, tax deductible, fees and he did most of the indoor repairs himself.

The tax code permitted him to "accelerate" the cost of property depreciation and to write off interest payments.

In 1983 Mr Kelly added two more small Maryland flats to his portfolio. He branched out the next year to buy two more in the thriving New York metropolitan area and added four condominiums to his holdings in 1985. "The banks were having a ball," he says. "I was paying no tax, but I was providing homes for people with cheap rents during a low-income housing crisis."

Mr Kelly was also having fun. Although he worked 15-

hour days, drove a dilapidated 1972 Datsun and dined out only rarely, he wielded away many pleasant hours charting investment strategies.

Then came 1986 and "a bit of a crisis." He lost his job and went for six weeks without a salary. His yearly income dipped to \$35,400 and he began to have cash flow problems.

It was a time of nail-biting tension. He moved to a tiny, rented flat and spent every cent he could save to keep his investments going.

Then the banks came to the rescue with offers of refinancing. If he would switch from a fixed rate of 12 per cent to what, in the US, were new adjustable-rate mortgages, starting at 8 per cent. Interest rates plunged later that year and instead of bounding up to double-digit levels, settled at around 9 per cent.

"During all this time, the Government was leading me along by the nose," he says. "But what Reagan gave, Reagan could take away."

His property buying came to an end with the 1986 tax reform, which levelled the tax brackets to 33 per cent, 28 per cent and 18 per cent. It also phased out mortgage deductions on all but two homes.

Very gradually, Mr Kelly began moving to the 28 per cent bracket and saving for the middle class and wealthy.

Meanwhile, he began to try other investments. He did well by trading bonds, but his forays on Wall Street became a lesson in the futility of small traders trying to make big bucks on the stock market.

By 1987 property inflation, boosted by the demand of other speculators, had raised the value of his assets to more than \$1m. His debt was \$750,000. Ultimately, he was saved the fate of so many of the speculators, now crowding the US bankruptcy courts, by an ingrained cynicism that told him "the party" would one day end. As his mortgages became less of a tax advantage, he began selling off some and paying off others from his earnings and rental receipts.

"My plan couldn't work if I couldn't rent my places or sell them," he says. But the small flats he had purchased were attractive to workers and young couples.

Mr Kelly, now with an estimated net worth of \$1.05m, has moved to California where property values are turning down. Typically, he is living in a rented house, hoping to catch a bottoming-out market next year, when he will be forced to reinvest some of his profits.

"If I buy at the bottom, and the California real estate party gets going again, I take in some heavy-duty dollars," he says. "Then I can go back to the east and pick up a palace."

On the other hand, if the economy slumps and he is unable to sell his real estate, "I'll end up as a beggar on the streets."



Getting the right communications solution is just a matter of teamwork.

As in the past, cooperation and communication are necessary to succeed. In today's business, flexible solutions are even more essential.

One information and communications company is committed to working with you to design, implement, and maintain solutions to fit your individual needs. That company is Bell Atlantic, an experienced communications leader.

For example, when Marks & Spencer, in their relentless pursuit of quality, wanted to improve the installation, control and monitoring of their Local Area Networks, we provided a comprehensive service package that reduced administrative costs, improved service levels and resulted in increased end user availability.

When Black & Decker needed a single source

EDP maintenance vendor in Germany, they came to Bell Atlantic's Sorbus. We consolidated their hardware servicing procedures saving them time and money.

We're Bell Atlantic, serving Europe from over 60 local offices. With Sorbus, a computer and data equipment maintenance company, Eurotech, designers and distributors of value-added data communications systems. Bell Atlantic International, software and systems integration consultants. Bell Atlantic Financial Services, a high-tech leasing company.

For more information, contact us by telefax in France at 01-4809 9539, in Germany at 0211-5261 102, in Italy at 02-825 4368, in the United Kingdom at 081-898 5250, and in Belgium at 02-774 1500.

Bell Atlantic

| Tax rates, earnings of a high technology salesman | | |
|---|----------------|-------------------|
| Year | Gross Earnings | Income Tax Rate % |
| 1981 | 82,200 | 24.3 |
| 1982 | 123,700 | 7.1 |
| 1983 | 111,700 | 0 |
| 1984 | 100,000 | 0 |
| 1985 | 93,400 | 0 |
| 1986 | 117,000 | 3.6 |
| 1987 | 107,000 | 10.0 |
| 1988 | 131,000 | 20.3 |
| 1989 | 189,000 | 20.3 |

© Bell Atlantic 1990

INTERNATIONAL NEWS

Police station comes under siege in protests against gangster links

Osaka labourers stage fifth day of riots

By Robert Thomson in Osaka

MORE than 1,500 rampaging workers in Osaka set fire to cars, hurled stones and bottles and tried to lay siege to a police station yesterday, in the fifth consecutive day of riots in Japan's second city.

Some 2,500 riot troops used batons and water cannons to defend the police station, which has become a target of popular outrage over links between police and Japan's powerful yakuza or gangsters.

The protests — Japan's worst labour violence in 20 years — began last Tuesday after a police confession that a Nishinari policeman had taken bribes from local gangsters, who have a monopoly on the recruitment of workers for low-paid day labour.

Armed with bottles, lumps of wood, and a deep sense of indignation, the down-and-out day labourers of Osaka fought the police in the streets littered with the broken glass and gutted cars of previous battles.

For the past week, hundreds of destitute workers have surrounded and attacked the Nishinari police station in the SE-3 night flophouse district that is the traditional home of the marginal men and women of the city.

The claim that a senior officer took bribes inspired the uprising, but the causes are deeply rooted in the uneasy relationship between Osaka's outcast groups and the police

as representatives of the affluent society that has left them behind.

Last night, the three-storey police station was again a beacon for Japanese who have failed to fit the middle-class mould. The angry crowd included protesters from the radical right wing, the far left, out-of-town toughs and the gangster groups which thrive in the seedy sub-culture of the run-down area.

About 200 people have been injured in the clashes and 80 or so have been arrested. Police had hoped that a promise to prosecute the officer, who was in charge of anti-gangster activities and allegedly received ¥3.3m (£27,000) in bribes, would ease the tension, but the protesters have gathered each night in front of the damaged police station.

Ordinary Japanese avoid the area and try to ignore the inhabitants, who wear the traditional billowing trousers of construction workers and rise each morning at around 5am to muster for jobs on sites around the city.

About 30,000 labourers live in the flophouses. They are mostly single men in their 50s, poorly educated, possibly alcoholic and generally in poor health — the local incidence of tuberculosis is 35 times the national average.

The workers are linked to the gangster groups who help



Burnt-out vehicles in the streets of Osaka after five days of rioting

organise the labour gangs, and have been adopted as a cause by left-wing radicals.

A 56-year-old labourer said last night that the police had betrayed the workers by taking money from the gangsters. He has lived in the area for seven years and indicated that there

was generally a very delicate balance among the different outcast groups.

There is also deep distrust of the police, who erected video cameras in Nishinari's streets last May and who have begun a crackdown on the yakuza. Apart from one of their own

officers, the police have begun random raids on the 45 yakuza offices in the area.

They are hoping that the protests will end today with the start of the new work week for the labourers, but late last night the station was still surrounded.

Hope for hostages in Lebanon

By Lara Marlowe in West Beirut

IN A radical departure from past demands by Lebanese hostage-takers, Sheikh Mohammed Hussein Fadlallah, the spiritual leader of the pro-Iranian Lebanese Hizbollah movement, has said the release of western hostages in Lebanon no longer depends on the fate of Moslems held in the Israeli-run prison at Khiam, southern Lebanon, nor is it linked to the safety of 15 Shia Moslems who are believed to have escaped from prison in Kuwait.

Sheikh Fadlallah's remarks seemed calculated to prepare the way for the release of a British hostage. Two of Beirut's leading newspapers predicted at the weekend that Mr Terry Winton, the Archbishop of Canterbury's envoy who disappeared in Beirut in January 1987, was about to be freed.

Sheikh Fadlallah predicted "a happy outcome" to the hostage saga due to "the change in the political atmosphere in the

region". His remarks follow Iran's restoration of relations with Britain on September 27.

Most of the 12 westerners still held in Lebanon are believed to have been abducted by the Hizbollah, over whom the pro-Iranian sheikh wields considerable influence.

In addition to Mr Winton, two other Britons are held hostage in Lebanon. They are Mr John McCarthy, the television journalist, and Mr Jackie Mann, a retired airline pilot.

The newspaper reports said economic and other agreements had been concluded, in exchange for a September 30 television appearance by the British author Salman Rushdie in which Mr Rushdie apologised for offence caused by his novel *The Satanic Verses*.

The Khiam prisoners, who are held without trial, are, like the western hostages, a "humanitarian problem", according to Sheikh Fadlallah.

But for the first time he rejected direct linkage between the two issues.

"We call on every side to dissociate these two problems from each other," he said. "All sides, Iran and all parties capable of doing something, can put pressure to end this tragedy in such a manner as to avoid giving the impression that this was done to make a trade — that one side has blackmailed the other into doing something it did not want to do."

Freedom for 15 Shia Moslems jailed in Kuwait for the 1983 bombings of the French and US embassies there has also been a consistent demand of Lebanese hostage-takers.

Sheikh Fadlallah said that he had heard reports of their escape following Iraq's invasion of Kuwait, but that the liberation of western hostages in Lebanon was now "more a question of the overall political situation than of individuals."

Kerry Packer has heart attack

By Kevin Brown in Sydney

MR Kerry Packer, widely regarded as Australia's richest man, was seriously ill in hospital last night after suffering a heart attack while playing polo.

Spectators at Sydney's Warwick Farm polo ground said Mr Packer, 52, was helped from his horse after suffering discomfort. He was unconscious when ambulances arrived but was revived before being taken to hospital.

Mr Packer's illness follows the death last month of Mr Robert Holmes à Court, another leading Australian entrepreneur, who collapsed at his stud farm outside Perth.

Consolidated Press Holdings (CPH), Mr Packer's privately-owned master company, controls a large number of Australia

magazines, the top-rated Channel Nine television network, most of the Australian chemical businesses formerly owned by Monsanto, and a profitable US publisher of newspaper inserts.

Mr Packer also owns 48 per cent of Australian National Industries, a major heavy engineering group, and significant property interests, including some large cattle stations. The magazine *Australian Business* recently estimated his personal wealth at A\$2.1bn (\$91m).

His biggest coup was the purchase for A\$200m this year of the Channel Nine television network, which he had sold for more than A\$1bn three years earlier to Mr Alan Bond, the former chairman of Bond Corporation.



Packer: said to be richest Australian

State-owned industries come under closer scrutiny

France is unruffled by recent British and EC moves, write William Dawkins and Charles Leadbeater

AS 1992 approaches, Europe's nationalised industries are coming under the spotlight. Nowhere does it shine more brightly than in France, with one of the largest state sectors in the European Community and a stalwart defender of the principle of public ownership.

Two recent developments have conspired to thrust the issue into greater prominence: a tougher line from Brussels, which is keen to prevent the single market from being distorted by unfair subsidies. After a long and bitter battle, the European Commission recently compelled France to repay several billion francs of government aid.

Sir Leon Brittan, the competition commissioner, plans to tighten controls on financing of state industries by requiring them to open their accounts to more searching EC scrutiny.

The British government's decision, when referring bids to the Monopolies and Mergers Commission (MMC), to pay close attention to state-owned companies, on the grounds that it wants to avoid "nationalisation by the back door."

Though the government has not said so publicly, it is believed to have French state-owned companies particularly in mind. Last month, the Department of Trade and

Industry referred to the MMC the proposed merger of Thomson-CSF, the state-owned defence electronics group and British Aerospace, and the bid by the nationalised Credit Lyonnais bank for Woodchies-

ter, an Irish leasing group. French officials claim to be unruffled by developments. With the Renault affair settled, they take a relaxed view of Commission plans to monitor state industry finances more closely. "We have had frank explanations with Brussels recently. We think we are beginning to understand each other better," says an industry ministry adviser.

The official French line is that the British government

has every right to vet mergers through the normal competition procedures. "We don't want to throw all on a fire which should never have been started," says a French official.

However, some surprise is expressed in Paris at the DTI's stance on state ownership, viewed as a marked departure from Britain's previous policy of judging mergers purely on competition criteria. It seems all the odder given Britain's fulminations at other EC countries' takeover barriers.

The British government maintains there is an intimate connection between state ownership and anti-competitive practices. It says its new policy is not meant to be a short-term block on the rash of French acquisitions.

DTI officials stress that by no means all state-owned bids will be referred to the MMC, which will be called on to examine whether state ownership also involves state control.

One British fear is that state companies can pass on subsidies in the form of discriminatory pricing, propping up uncompetitive businesses and distorting competition. There is concern, too, that takeovers could be used to continue protectionist policies after 1992.

The free-market Adam Smith Institute argues that state-owned groups would be biased

towards suppliers of their own nationality. Furthermore, since state-owned companies are bi-proof, their targets have no choice but to be state-owned.

Finally, British ministers cite strategic considerations which would justify blocking a foreign state acquiring a stake in defence or oil interests. They say this shows the policy is not directed at the French, but has a global reach.

The concern over the Kuwait Investment Office's acquisition of a stake in British Petroleum two years ago was reawakened recently, after companies controlled by the Iraqi government acquired a network of companies producing products with military applications.

French officials respond that government generosity to the public sector is limited by national budget constraints as well as EC rules. Many state-owned companies, indeed, complain bitterly about the government's measures. Because they are restricted from raising capital by issuing equity to private investors, some are far more in debt than their private sector competitors.

Renault, admittedly, has benefited from a huge government debt write-off, the cause of the row with Sir Leon. Yet it remains the most indebted car maker in the world. Rhône-Poulenc in chemicals and Usinor-Sacilor in steel are

others which have had to adjust their plans to cope with the constraints on their state shareholder.

French state companies also claim to be run independently of their government shareholders, and their financial accounts are sometimes more informative than those of private sector counterparts.

As for accessibility to takeovers, French officials point out that France and Britain are Europe's most open countries, a claim supported by a study by accountants Peat Marwick.

Foreign companies spent FF17.5bn on acquisitions in France last year, against FF100.7bn spent by French companies abroad according to the Paris-based magazine, *Fusions & Acquisitions*.

So what, then, is the rationale for continued state ownership? French industry advisers claim it is to guarantee an enduring French presence in strategically important industries like cars, steel, oil chemicals and electronics. It helps to have an owner who does not demand increased earnings every quarter, something which French officials see as a weakness of private Anglo-Saxon industries.

French officials also like to point out that the Rome Treaty explicitly recognises the principle of public ownership and obliges EC authorities to treat

NEWS IN BRIEF

India plans austerity measures

INDIA'S Finance Ministry is drawing up austerity measures before an anticipated decision by the government to seek a substantial loan from the International Monetary Fund, David Housego reports from New Delhi.

The inevitability of an application to the Fund emerged over the weekend after Moody's, the US credit rating agency, downgraded India's rating by two grades, from A3 to BAA1. Moody's defines the new rating as that of a country "certain to repay interest and principal" but undergoing economic difficulties.

On the basis of estimates by the World Bank and commercial bankers, India needs a further \$4.5bn this year to complete the financing of an expected current account deficit of \$10bn (£3.3bn) or more.

'200 Moslems killed in villages'

Fears that Hindu-Muslim violence in northern India could worsen over the coming weeks deepened yesterday as details emerged of the killing of as many as 200 Moslems in villages in Gonda district in Uttar Pradesh, writes David Housego in New Delhi.

Official accounts put the death toll at 27.

Egypt raises oil price \$1 a barrel

Non-OPEC Egypt raised its oil prices by \$1 a barrel yesterday to reflect higher international market rates, an Egyptian oil official said. Retail reports from Cairo. The top Zelt and Ras Bahar blends were now quoted at \$36.30 a barrel and the benchmark Suez blend at \$36.

Jordan in moves to save energy

Jordan, its economy ravaged by the Gulf crisis and a sharp drop in oil supplies, has announced emergency energy-saving measures and cut the official working week. Reuters reports from Amman.

Under the measures, aimed at slashing an oil bill which topped \$400m in 1989, all commercial establishments will close at 7pm and entertainment facilities at 1pm.

Israel hands out first gas masks

Israel yesterday started a nationwide distribution of 4.7m gas masks, as Prime Minister Yitzhak Shamir reiterated that the Jewish state had no intention of launching a pre-emptive attack against Iraq, writes Judy Maltz in Jerusalem.

Rwanda rebel suspects arrested

Government forces have arrested hundreds of suspected rebel sympathisers since fighting erupted in Rwanda's capital, Kigali, on Thursday night, residents said yesterday. Reuters reports from Kigali.

Residents said the capital had been quiet for several hours.

| WORLD ECONOMIC INDICATORS | | | | | |
|---------------------------|---------|----------|----------|----------|----------|
| TRADE STATISTICS | | | | | |
| | | Aug '90 | July '90 | June '90 | Aug '89 |
| UK (£bn) | exports | 8,837 | 8,254 | 8,838 | 7,558 |
| | imports | 8,789 | 8,934 | 10,157 | 10,000 |
| | balance | -1,128 | -1,680 | -1,355 | -2,442 |
| France (FFbn) | exports | 96,378 | 96,199 | 98,721 | 94,925 |
| | imports | 103,721 | 101,244 | 99,747 | 101,350 |
| | balance | -5,343 | -5,075 | -1,026 | -6,355 |
| Japan (¥\$bn) | exports | 23,458 | 22,728 | 22,770 | 22,888 |
| | imports | 17,448 | 17,811 | 16,389 | 18,351 |
| | balance | +6,012 | +4,915 | +6,381 | +4,537 |
| | | | | | |
| | | July '90 | June '90 | May '90 | July '89 |
| US (\$bn) | exports | 32,026 | 34,221 | 32,774 | 29,903 |
| | imports | 41,267 | 38,580 | 40,543 | 38,984 |
| | balance | -9,240 | -4,359 | -7,769 | -9,081 |
| W. Germany (DMbn) | exports | 54,20 | 52,10 | 52,70 | 54,00 |
| | imports | 46,90 | 43,50 | 42,40 | 42,60 |
| | balance | +8,30 | +8,70 | +10,30 | +11,40 |

CONTRACTS & TENDERS

INVITATION FOR BIDS

Lot No. 2402 TU
File No. 114-388/DH-252
Contract No. 114-388/DH-252
Date of issuance: 5.10.1990
Bid Submission Date: 22.11.1990

1. The TURKISH ELECTRICITY AUTHORITY, hereinafter referred to as TEK, has received a loan amounting to 140,000,000 USD from the WORLD BANK in various currencies (mostly the cost of Power System Operations, Amman project and part of the proceeds of this loan will be applied to eligible payment under the Contract(s) for which the Invitation For Bids is issued.

2. The TURKISH ELECTRICITY AUTHORITY now invites sealed bids from eligible bidders from supply of a total of test and measuring equipment.

All the above equipment shall be supplied according to the Bidding Documents.

Each bidder may submit a bid for any item of equipment of combination of items. All bids and conditions of bids shall be opened and evaluated simultaneously in order to determine the bid or combination of bids offering the total advantages to the contract.

TEK, the bidders shall be allowed to offer a discount price for the combination of the contract.

3. Interested eligible bidders may obtain further information from and inspect the Bidding Documents at the office of:

TURKISH ELECTRICITY AUTHORITY
General Management
Commercial Affairs Department
Taksim Bldg. No. 27 Kat:1
Balgat/Beşiktaş, Ankara-TURKEY
Tel: 47245 16 16
Telex: 3261-3261

4. A complete set of Bidding Documents may be purchased by any interested eligible bidder on the submission of a written application in the above office and upon payment of a non-refundable fee of 100 USD or 300 000 TLK at the following address:

TURKISH ELECTRICITY AUTHORITY
General Management
Department of Finance
Taksim Bldg. No. 27 Kat:4
Balgat/Beşiktaş, Ankara-TURKEY
Tel: 47245 16 16
Telex: 3261-3261

These bids submitted by the bidders who did not purchase the Bidding Documents shall be rejected.

5. All bids must be accompanied by a bid security in an acceptable form of not less than 5% (three percent) of the bid price and must be delivered to the above office on or before 12:00 hours on 22.11.1990 at the office.

6. Bids will be opened at the presence of their bidders' representatives who choose to attend at 14:00 hours on 22.11.1990 at the office.

TURKISH ELECTRICITY AUTHORITY
General Management
Procurement/Commercial
Taksim Bldg. No. 27 Entrance Floor Box: A
Balgat/Beşiktaş, Ankara-TURKEY

Extension of Closing date for Bid Submission

The Ethiopian Transport Construction Authority announces that the closing date for submission of bids for its tender No. T-01/83 is extended to November 15/1990 at 10:00 hours local time.

All bidders are requested to note the change and submit their bids accordingly.

ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

EDUCATIONAL

BTN/HENLEY

Reg. Reps
Cut off date 1 Dec

Old syllabus courses
Tel: 0491 573598

RENTALS

KENWOODS RENTAL

QUALITY FURNISHED
FLATS AND HOUSES
Short and Long Lets

23 Spring St., London SE2 3LH
Tel: 071-492 2272, Telex: 252371
Fax: (071) 262 3720

BUSINESS SOFTWARE

A selection of software packages to suit your business needs appears every Saturday in the WEEKEND FT.

Order your copy today.

THE EUROPEAN MARKET

ter, an Irish leasing group.

French officials claim to be unruffled by developments. With the Renault affair settled, they take a relaxed view of Commission plans to monitor state industry finances more closely. "We have had frank explanations with Brussels recently. We think we are beginning to understand each other better," says an industry ministry adviser.

The official French line is that the British government

NOTICE OF INTEREST RATE

The following rate of interest will continue to apply.

MONEY MARKET PLUS

11.77% 15.89%

per annum

The grossed-up rate being equivalent to 0.75% above the three month LIBOR as on 1st October 1990, in accordance with the terms of the agreement.

SKIPTON

Head Office, High Street, Skipton, North Yorkshire, BD23 1DN.
Tel: 0765 700600
MEMBER OF THE BUILDING SOCIETY ASSOCIATION
*The basic rate of interest.

JOHN MAJOR

Chancellor's first big political gamble

THERE are now two paths open to Mr John Major.

One leads just a few feet through the chancellor's connecting door to 10 Downing Street. The other is the more well-trodden route to political obscurity in the ranks of former prime ministers.

At the weekend euphoria that followed his decision to take sterling into the EMS exchange-rate mechanism, the judgment of most of his colleagues was that Mr Major had already taken two of the three steps along the former.

At a stroke he lifted the gloom that threatened to engulf the Conservative Party conference, demonstrated that a beleaguered government could still grasp the initiative, and ended the most debilitating internal row of its 11 years in office. "I was starting to feel that we were plodding over the mud at Passchendaele. We had forgotten how the government could take the initiative," one colleague said.

Rivals for the eventual succession to Mrs Margaret Thatcher have been gracious enough to admit that Mr Major now wears the mantle of heir apparent. The chancellor had demonstrated also that if he were the prime minister's chosen successor, he had enough political grit to stand up to her and win.

"It was a great triumph... he has killed the idea that he is Thatcher's poodle," was a comment offered by one minister and echoed by several.

In spite of his calculatingly grey demeanour, Mr Major will undoubtedly enjoy the plaudits this week in Bournemouth. But he is level-headed enough

to be aware also that "golden scenarios" frequently turn out to consist of foil-coated lead.

A man who until Friday ran the risk of combining as chancellor the apparently contradictory sobriquets of "the most political member of the Cabinet" and "a master of indecision" now has to deliver what the ERM is to promise a victory at the general election due by mid 1992. If he does not, the Conservative Party will look to someone else who it thinks can win - probably to Mr Michael Heseltine.

Recent history shows how ruthless it can be. Although never a contender for the leadership, Mr Nigel Lawson was hailed as the greatest Conservative chancellor for a century. Now he is the scapegoat for everything that has gone wrong.

Astute politicians that he is, Mr Major spent much of the weekend seeking to play down the expectations that he had generated. There were no clear-cut implications for the date of the election; the EMS would not be the cloak or excuse for a pre-election boom; inflation would not disappear overnight.

More sober colleagues agree with him. "It just doesn't deliver the promised land peacefully," one said. "Nothing does." Others have realised that the government is promising a long period of below-average economic growth until industry adjusts to the new exchange-rate discipline. In France that interval lasted five years.

Mr Major's difficulty is that the great majority of his colleagues hope the ERM will be the "panacea" he insists it is



not. The pressures from Mrs Thatcher and Tory MPs at Westminster will be intense. The prime minister after all was manoeuvred into the ERM not because she was persuaded that it has any intrinsic merits. Mr Major told her that

staying outside might cost her the election.

The chancellor has a well-deserved reputation at Westminster as an honest as well as supremely skilful politician. So there is no reason to doubt his sincerity when he emphasises

that ERM entry is not designed as a precursor to an irresponsible 4 or 5-point cut in mortgage rates, followed by a dash to the polls next June.

In private as well as public conversations, Mr Major remains adamant that the central objective must be to tackle inflation. He believes that the electorate is too smart to fall for a pre-election party promise of another crushing hang-over.

His upbringing in distinctly modest surroundings in south London has left him also with deep-seated conviction that inflation is a social as well as an economic evil - he takes its toll first and foremost of the less affluent.

For all the disclaimers, however, Mr Major is well aware of how politics intrudes upon economics.

At the start of this year, the Treasury establishment wanted him to push interest rates still higher. He declined, arguing that the parous state of the Conservative Party might make a further tightening of the screw counterproductive.

If the fiscal stance in this year's Budget won the approval of the Treasury's economists, the detailed content was unashamedly political. Mr Major decided to play to the Tory back benches and to ordinary voters rather than to the City pundits. Yesterday he made clear that, paramount though it was, the defeat of inflation would not take precedence over the government's social obligations in this year's public-spending round.

He will face other pressures also. Mrs Thatcher has backed down on the ERM but, as Sir

Leon Brittan said yesterday, the government has to do still more if it is to be taken seriously in negotiations on Economic and Monetary Union (EMU). The chancellor must now persuade the prime minister to admit the possibility of a single European currency.

Mr Major, as the Conservative leader-in-waiting, also will have to tell his own party and the electorate a lot more about just what he stands for.

His meteoric climb since being "spotted" by Mrs Thatcher during the 1987 election campaign when he was a junior social security minister owes much to his determination not to be pigeonholed. Thatcherites claim him as "one of us". So, too, do the supporters of one-nation Toryism.

The chancellor himself once remarked: "I prefer to set out the things I believe in in concrete terms rather than in some quasi-visionary way". Since then, he has provided a few clues.

He is not an instinctive European like some of his more patrician colleagues. But he has a far more deep-rooted concern than most for the less affluent.

He is liberal on some issues, narrow-minded on others.

Next year's Budget will set more of a manifesto designed to build the image of a Conservative more attuned to the aspirations of the John Major who left school at 16.

Whether it has much relevance will depend on the outcome of the first serious gamble in politics.

Philip Stephens

BUNDESBANK

Stiff conditions for next move to monetary union

THE GERMAN Bundesbank has begun drawing up a blueprint for the second stage of European Monetary Union to challenge the plan of Mr John Major, the UK chancellor of the exchequer, based on a parallel currency known as the hard Ecu.

A paper entitled "Compromise proposal for the second stage of EMU" has been circulated among European central banks and proposes that the transition from the present stage of EMU to stage two should take place on January 1, 1994, provided certain stiff conditions are met.

The paper, which so far is neither official Bundesbank nor German policy, develops a plan for the second stage of EMU that was put forward by the Dutch central bank a month ago.

Although still an unofficial document, it is significant because it indicates that the Bundesbank is softening its previous hard line that stage two should be defined only when an EC treaty has been agreed which establishes how the final stage of EMU will look.

Mr Major's plan for an evolutionary approach to EMU and a later Spanish proposal that would make use of the hard Ecu in the course of phase two appear to have pushed the Bundesbank into considering earlier action.

The specific proposals for stage two are sketchy. The Bundesbank paper proposes a strengthening of the multilateral surveillance procedure by which EC member states exert peer-group pressure on one another to pursue sound economic policies.

It says convergence of anti-inflation policy "could be fostered by a hardening of the Ecu", but gives no details of what that might entail.

The paper adopts a Dutch suggestion that the EC Committee of Central Bank Governors, which the Bundesbank president Mr Karl Otto Pöhl has likened to an embryonic European central bank, could be transformed into a Council of Governors. That would create a body with a legal personality, unlike the present government committee.

Towards the end of stage two, the council of EC economies and finance ministers would decide to start the third and final stage of monetary union within a short period of time. That would involve a unanimous decision by member countries to set up a European Central Bank (ECB).

The Bundesbank working paper sets some tough conditions for transition to stage two and for the later move from stage two to three.

To move to stage two: ● The EC must have created its planned single EC market, including the elimination of border controls, so that there can be free movement of persons, goods, services and capital among the 12 member countries.

● All member states' currencies must be in the narrow band of the European exchange-rate mechanism.

● The treaties on EMU, to be agreed by the EC Intergovernmental Conference, which starts in December, must be ratified by all.

● Monetary and compulsory financing of public deficits is to be banned in all member states.

● The national laws of all member states must provide that central bank governors are not subject to instructions or orders.

● The convergence of anti-inflation policy among all EC member states taking part in EMU must have "progressed substantially".

Similarly tough conditions would dictate the move to stage three.

Inflation would have been "very largely eliminated" in all EC countries with price differences "virtually stamped out".

Budget deficits in all countries would have been reduced to levels that are "unproblematic in terms of anti-inflation policy".

The process of convergence would have to be accepted by the markets in the form of a virtual harmonisation of capital market rates.

National legislation would have to be changed to make national central banks politically independent and to allow the ECB to function.

The plan would enable countries not participating in monetary union from the beginning to join after a transitional period.

The Dutch central bank originally proposed moving to stage two at the beginning of 1994 so that the political momentum towards EMU would be maintained.

The Bundesbank paper is understood to be the work of Mr Hans Tietmeyer, the director in charge of the bank's foreign relations, and has yet to be approved by Mr Pöhl, the bank council or the government in Bonn.

Peter Norman

SIR LEON BRITTON

Proposal for 'hard Ecu' wins conditional approval

MR JOHN MAJOR'S plan for developing a "hard Ecu" stood a reasonable chance of being accepted as the right way forward if Britain recognised that creating a European Monetary Fund was part of the process towards monetary union, Sir Leon Britton, said yesterday.

Sir Leon, European Commission vice-president, said Mr Major's commitment that decisions about monetary union should be for a future parliament could be met by incorporating a "trigger mechanism".

He said that Britain's own proposals involved the creation of a "highly supra-national body". "If I were against any kind of pooling sovereignty, I wouldn't be in favour of the Major plan but I think it has merits precisely because it does accept that there is a strong case for moving towards supra-national pooling of sovereignty on monetary issues," he said.

Alison Smith

HOUSING

Cuts in mortgage rates expected

MANY of Britain's biggest building societies are likely to cut their mortgage rates over the next few days, easing the squeeze in the housing market and giving some relief to Britain's hard-pressed building industry.

Woolwich, Britain's third-biggest building society, said yesterday it would cut its mortgage rate of 15.25 per cent by up to 1 percentage point this week. The cut, to take effect on November 1, for new and existing borrowers, is likely to be announced on Wednesday. Mr David Blake, the society's assistant general manager, said another cut was likely later in the year.

A reduction in mortgage lending rates, which have been at record levels since March, is likely to lift the fortunes of Britain's construction industry, which has suffered from a widespread slowdown in home building, particularly in the south-east.

Mr Kenneth Bell, chairman of Bellway, one of Britain's biggest house builders, said the decision to cut interest rates was "a tonic" for an industry that had taken a beating.

The decision by Woolwich on its mortgage rate follows Friday's decision by Nationwide, the second-biggest building society, to cut its rate by 0.5 percentage points, from 15.9 per cent to 15.4 per cent, also from November 1.

Halifax, the largest UK mortgage lender, also intends to reduce its rate. The society will decide on the size of the cut in the next few days.

Other building societies said yesterday they were likely to cut their rates this week. Bradford & Bingley, the eighth-biggest building society, said the rate cut would be "a step in the right direction" for borrowers.

Peter Marsh

PARIS

Mitterrand urges unity

FRANCE'S ERM entry has coincided with pressure from President François Mitterrand of France for a centralised European economic and political decision-making body.

"An economic government of Europe" was the logical next step from economic and monetary union, Mr Mitterrand told a conference organised by the Franco-German European Convention in Paris at the weekend.

European union would be destined to failure without "unified political decision-making".

A single European currency and central bank would have no "realistic chance of success", said Mr Mitterrand. "There must be an economic government of Europe," otherwise European union would never be reliable.

William Dawkins

SPAIN

Madrid is no longer alone in trouble

NO ONE will be happier to see Mr John Major, the UK chancellor, at the European Community finance ministers' meeting in Luxembourg today than Mr Carlos Solchaga, his Spanish counterpart.

Spain has been out on a political limb since Mr Solchaga proposed last month that the European Monetary Union (EMU) schedule planned by the Commission president, Mr Jacques Delors, be slowed down. Britain's entry into the exchange-rate mechanism of the EMS means that finally Madrid has almost certain political backing for a one-year delay to the start of phase two of the Delors schedule, until 1994.

Spain, an ardent supporter of the faster Delors programme when it joined the ERM in June 1989, is in the middle of its effort to "converge" its inflation and interest rates to Western German and French levels. Mr Solchaga has blown hot and cold about the effects of the Gulf crisis, but his suggested delay to phase two marked an unmistakable change of heart. If not about Spain, then at least about how quickly Spain can converge. In spite of calls from Mr Delors for the prime minister to intervene, early convergence is simply on longer on the table.

Even before the Gulf crisis, the Spanish government's current account deficit was going to rise some 70 per cent to around \$10bn (€2.2m) as tourist income fell 10 per cent. The peseta has continued to trade at the top of its 6 per cent fluctuation band,

where it is clearly overvalued.

The authorities have held interest rates deliberately high to draw in cheaper imports from Germany and France and thus force local industry to compete. Soon after joining the ERM, Madrid added another monetary weapon, a credit squeeze, to help cool down the economy, and there were signs that the combination of the two was working.

Annualised inflation of 7.1 per cent when Spain joined the ERM fell to 6.2 per cent by July. Growth in private credit slowed from an average 17.6 per cent in 1989 to 12 per cent by last August. Import growth slowed so much that by August, the trade deficit was up only 1.6 per cent on 1989.

Politically, ERM membership has been the biggest success in Spain's four-year-old EC membership. Mechanically, the ERM has worked as well - the central bank seldom intervenes to hold the currency in its fluctuation bands.

However, the economic benefits, if any, are far from apparent and the Gulf crisis threatens to recharge inflation and widen the current deficit while the rest of the economy continues to cool. The credit squeeze, which initially did more damage to demand than the strong peseta, has meanwhile been discredited by the rapid growth of a local commercial paper market.

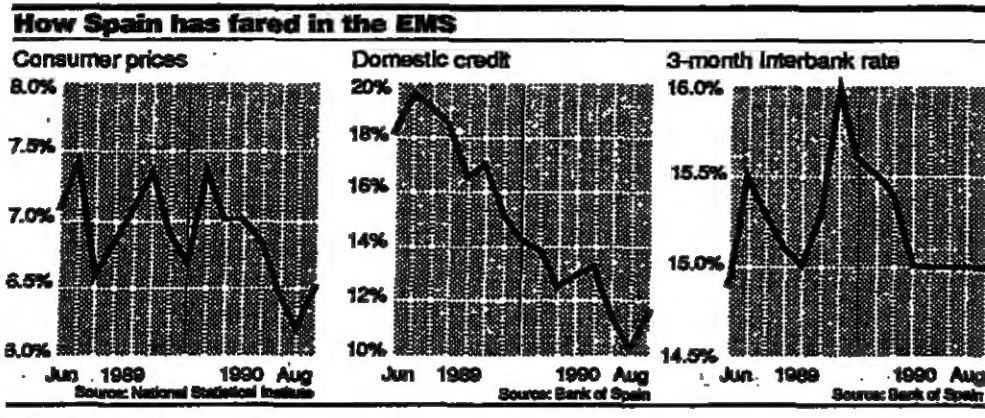
That, and Mr Solchaga's modest fiscal restrictions in his budget for next year, would leave the exchange rate, and thus ERM membership, exposed as the last conventional macroeconomic weapon left in Madrid's arsenal. The attempt to import low inflation has not yet worked and the currency is again poised to become a weapon of last resort - Spain devalued in 1976 and 1977 to get itself out of trouble.

In Spain, ERM membership has not been accompanied by profound changes in economic culture. Interest rates of 16 per

cent matter little to Spaniards who were borrowing at more than 20 per cent at mid bond in 1987. Moreover, Spain, unlike Britain, has a public-sector deficit, which forces the state to borrow and to hold interest rates up.

Even though credit demand has fallen, the danger is obvious. Spain needs imported oil for 52 per cent of its primary energy needs against an EC average of 32 per cent. This August, Spain's (€37m) current-account deficit was three times as high as in August 1989. This year, inflation is now expected to touch 7 per cent, just above 1989. That alone adds a year to convergence.

Mr Solchaga has retreated, under internal party pressure, from a tougher budget. His success will depend on whether anyone in Spain believes the measures he has in place will actually slow inflation. Yet few people think his 5 per cent inflation target



How Spain has fared in the EMS

CENTRAL BANKS

Sterling will unsettle cosy arrangement

THE ENTRY of sterling into the ERM presents the central banks of the European Community with a significant challenge.

Into their cosy arrangement has been thrust the fourth most actively traded currency in the world and, historically, one of the most volatile.

Because the ERM now groups two of the four most active currencies, the practical problems of managing the mechanism will grow considerably. These difficulties could manifest themselves as early as this week, when many predict sterling will move to the top of its permitted band against other EC currencies.

Mr Jim O'Neill of Swiss Bank Corporation in London, said: "There is going to be a battle between the markets and policy-makers in the UK and elsewhere."

Although trading volume in sterling has fallen considerably in the past 12 months, the currency's volatility has long attracted bank dealing rooms, which have more chances to make money when currencies are swinging about. Their traders will have a vested interest in maintaining that volatility.

If the UK's decision proves successful, and particularly if there is a move fairly soon from the 6 per cent limit to 2.25 per cent, sterling's stability would mean the attraction of trading it would wane.

LEADING BRITISH and US banks operating in the London foreign exchange market have agreed to widen the spread between buyer and seller rates in sterling in response to a sharp reduction in trading volume in the pound in the past 12 months.

The banks hope the move will make trading of sterling more lucrative to banks and thus encourage smaller banks back into the business.

At a meeting last month, the banks agreed to widen the spread for most deals from 5 to 10 basis points, for trades involving the dollar (each basis point is one-hundredths of a US cent) and from 3 to 5 basis points for trades involving the D-mark (a basis point is one-hundredths of a pfennig).

There are several reasons for the drop in trading in sterling. Many banks have been reducing their foreign exchange operations as

they try to economise in a difficult period for banks. Some have withdrawn as they have incurred severe losses in trading sterling, which has been volatile.

As market makers, the banks are required to deal with all comers at the finest prices. But because of the retreat of other banks from the market, they have been unable to reduce their own exposures and have been vulnerable to market swings. Bankers say the effect of this may have been compounded by a relative absence of intervention from the Bank of England, except for when sterling came under severe pressure as it did last month.

In retrospect, it appears that the UK authorities were nervous about a collapse in sterling ahead of entry into the ERM, but were also being careful not to send signals about entry that would be misinterpreted.

sure on the peseta in the ERM.

By contrast, Britain's financial markets are probably the most sophisticated and deepest outside the US, and have the capacity to absorb tens of billions of dollars in inflows. In the face of this, even the EC central banks could quell Mr Steven Bell of Morgan Grenfell, the UK merchant bank, said: "This is bound to reduce the power of intervention."

Thus, in the short term, many believe that the government will be forced to cut interest rates again fairly shortly. Mr Bell said London's money markets were discounting an 11 per cent base rate by the second half of next year.

In the longer run, the hope

of the ERM's proponents is that its discipline will force Britain's inflation rate down to that of its neighbours.

If this does not happen, the fear is that when interest rates are cut, the pound will collapse as the huge capital inflows are reversed. This would eventually force sterling to devalue or withdraw from the interest rate mechanism.

Sterling closed above DM3.02 in New York on Friday. The theoretical 6 per cent band in which sterling can trade against the D-mark would allow it to swing from about DM2.78 to DM3.18. Sterling was last below DM2.78 in February.

In practice, though, sterling can fall only to around DM2.88 without hitting the limit against the peseta: the 6 per cent limit applies against all other currencies and the peseta is 3.5 per cent above its central rate against the D-mark.

In thus, while the peseta remains the strongest ERM currency, it is it rather than the D-mark which will provide the effective limit for any fall in the pound. The sterling-peseta rate then becomes an issue of central importance to the UK authorities. It also means that, while DM2.95 is the so-called central rate, sterling's capacity for depreciation is more limited than its capacity for appreciation.

Stephen Fidler

| NEW CENTRAL RATES | |
|-------------------|----------|
| units per Ecu | |
| Belgian franc | 42.4032 |
| Danish kroner | 7.46195 |
| D-Mark | 2.05686 |
| Spanish peseta | 133.651 |
| French franc | 6.55957 |
| Irish punt | 0.787417 |
| Italian lire | 1,936.24 |
| Luxembourg franc | 42.4032 |
| Dutch guilder | 2.36363 |
| UK pound | 0.998004 |
| Greek drachma | 206.371 |
| Portuguese escudo | 776.735 |

| BILATERAL CENTRAL RATES OF £ | |
|------------------------------|----------|
| against other ERM currencies | |
| Belgian franc | 60.8451 |
| Danish kroner | 11.2526 |
| D-Mark | 2.9500 |
| Spanish peseta | 191.750 |
| French franc | 9.93699 |
| Italian lire | 2,207.25 |
| Luxembourg franc | 60.8451 |
| Dutch guilder | 3.32938 |

BRITAIN AND THE EMS

COMPANIES

Business
sees a
guiding
light

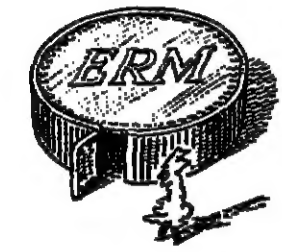
THERE WILL be farrowed brows in the boardrooms of British companies this week as executives start to come to terms with the country's membership of the exchange rate mechanism.

Managers will have to deal with a complex set of related questions. How much will a 1 percentage point cut in interest rates, with more in prospect, reduce their borrowing costs and stimulate demand in the UK? How will their competitiveness with the rest of the European Community be affected by sterling pushing the top of its 6 per cent range against the D-mark and what offsetting measures will they need to take? How will trade with the US be affected if the pound continues to strengthen against the dollar?

They will have one factor in their favour which they did not before, the knowledge that there are limits on sterling's volatility. This stability will help managers draw up their strategies, not just for meeting continental competition but for business generally.

Versar International, the Midlands capital equipment maker, will be exposed to all three factors. About 40 per cent of its turnover of £70 last year came from the UK, with 25 per cent from the rest of Europe and 10 per cent from the US.

According to Mr Tim Kelleher, chairman and chief executive, the stability brought by ERM membership will have strategic significance for com-



panies. He says: "This means we can supply the EC from our British base without worrying that exchange rate fluctuations will cut across us. That in turn means we have no incentive to make acquisitions in Europe to help shield us from those factors. The UK is definitely locked into Europe."

The move into the ERM has confirmed the company's strategy to focus on acquisitions in the US as the priority. Mr Kelleher says: "Protecting against volatility against the dollar will now be important."

This division of concerns will be a feature of many manufacturers' deliberations. An analysis of the turnover of the top 20 engineering companies published this year by County NatWest, the stockbroker, shows that on average they earn as much in the US as they do in Europe.

Mr Kelleher was not worried by the entry rate, which would be tight but not intolerable. He says: "In the past few years we have gone as high as DM3.20. We have invested strongly so our productivity matches our continental competitors. We are not planning to change our approach to pay bargaining at all because we know our productivity trend is good. It is those who have not invested who will be hit."

A case in point will be some of the thousands of small companies which inhabit the undergrowth of the mechanical engineering industry. Investment in that sector grew at only 4 per cent a year between 1985 and 1988.

It is companies in these sorts of sectors, where there has been low investment and relatively lagged productivity growth, which will see their margins compressed with the pound at DM2.95.

The immediate one point cut in interest rates will be of limited relief. Mr Kelleher says: "It will not make much difference. People have underestimated the lethargy in the real economy. It might get consumer spending going again but not manufacturing."

Of the prospect of further cuts in the pipeline, he says: "So much of business is about confidence and now people can see a clear path for interest rates gradually coming down they will plan with much more confidence."

In Versar's case that will have a bearing not just on demand and the cost of borrowing but directly on its own competitiveness and margins.

The euphoria which has greeted ERM entry might seem ill placed with interest rates at 14 per cent interest rates, the pound above DM3 and parts of industry moving into low gear. Yet many companies believe they can now see a light which will guide them out of the gloom. For some, it will prove to be a false dawn.

Charles Leadbeater

Entry spurs debate over pay bargaining

STERLING'S entry into the Exchange Rate Mechanism of the European Monetary System will have an immediate impact on the tone - and possibly the settlement level - of forthcoming pay negotiations. In the longer term it could have implications for Britain's pay bargaining structures.

Among European countries, the UK has one of the least centrally co-ordinated systems of pay determination. Full British membership of the EMS is likely to result in a closer examination of how Britain's European competitors tackle wage talks, especially if the Labour Party wins power at the next general election - due in 1992 at the latest.

Those deliberations will take some years. Of more immediate concern to British industrialists will be union reactions to government warnings that ERM entry will increase the relationship between pay and job levels.

There were no signs yesterday of union leaders moderating their pay demands. Mr Alan Tiffin, general secretary of the Union of Communications Workers, said he would be going for a settlement in excess of inflation in negotiations covering 160,000 workers at Royal Mail.

Predictions of future falls in the inflation rate carried little weight, said Mr Tiffin. "Most of us in bargaining are looking backwards. It is about what has happened over the last 12 months. We are just trying to catch up. We are

LABOUR PARTY

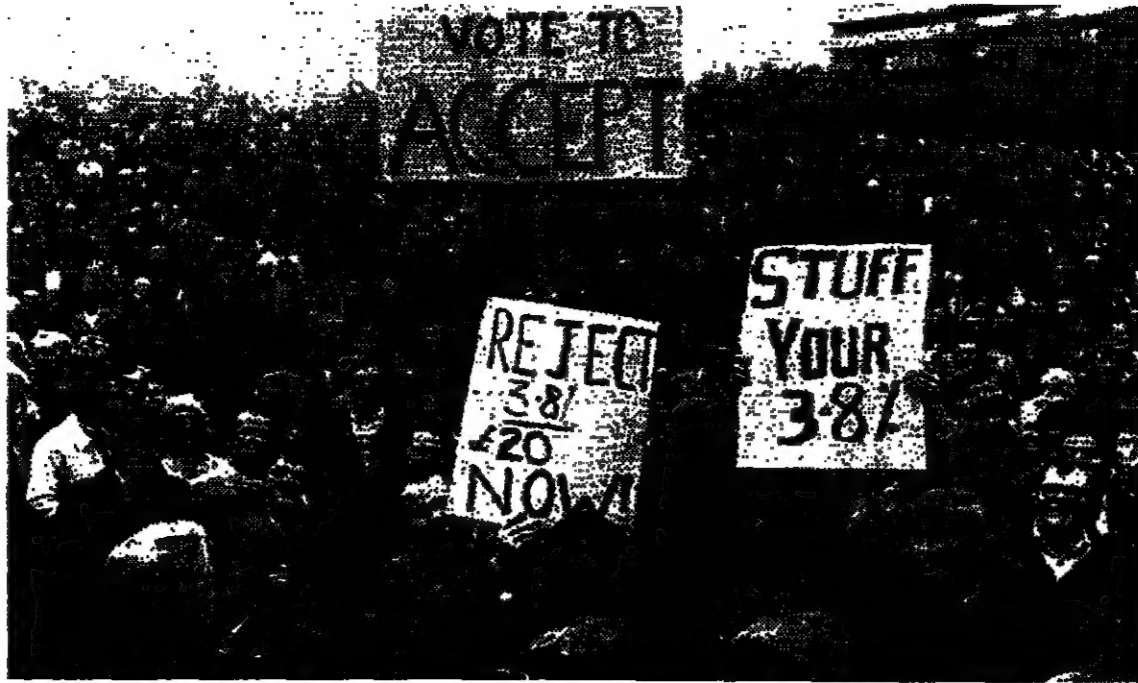
Kinnock loses economic aces from strong-looking hand

THE Labour Party today finds itself bereft of two of the economic aces it had been counting on to give it a winning hand over the Tories as they start their conference in Bournemouth today.

As sterling joins the ERM and interest rates are cut, the one ace left in Labour's hand - credit controls - looks more like the joker in the pack.

The Government's ability to make swift changes to the British economy and its relationship with continental Europe makes Labour's economic policies appear all the more important.

Mr Neil Kinnock had delighted delegates at Labour's conference in Blackpool last week with a speech promising that Labour would negotiate full British membership of the exchange-rate mechanism; cut inter-



Unhappier times: British Leyland workers during the pay strike of 1981 in the midst of recession

chasing inflation rather than creating it."

Mr Jack Adams, national officer of the TGWU general workers' union, leading talks at both the Jaguar and Rover Group vehicle manufacturing companies, said ERM entry did not affect the unions' position at the

talks. Negotiations at Jaguar and Rover face upward pressure because of pay awards this autumn at Ford and Vauxhall which will lead to rises of more than 13 per cent and 12 per cent respectively, as the second instalment of two-year pay deals.

In spite of the apparently uncom-

promising comments of union leaders, there are several factors which could ease pay pressures on employers.

First, the easing of mortgage rates will lessen shopfloor demand for higher wages.

Second, union leaders will be less

willing to countenance confrontation with employers because of the increased possibility of an early British general election which ERM entry has brought about.

Third, the message that pay rises affect job levels is likely to have an increasingly powerful effect on a British workforce already concerned about the growing number of lay-offs in recent weeks.

Britain's entry into the ERM means that it will no longer be possible to compensate high pay and price rises by allowing sterling to fall. Businesses will lose competitiveness against European rivals unless they curb costs. Emphasis on matching productivity levels abroad will have to increase or jobs will be lost.

Mr Tiffin said yesterday that the complexities of such arguments mean that they are unlikely to carry much weight among workers. None the less it was the prospect of ERM entry which in part prompted Mr Tiffin and Mr John Edmonds, general secretary of GMB general workers' union, to suggest this summer a more centralised system of pay bargaining.

Drawing on practices overseas, they want negotiations to be concentrated in the first three months of the year and for a target range for settlements to be established following publication of the government's annual statement of the economy and a national debate involving unions and employers. This, they believe, would

reduce the phenomenon of pay leap-frogging.

In most European countries except the UK, there are industry-level bargains in each industry, whose results apply with the force of law or custom in each company. These are often informed by data from central government institutions and, although pay levels can be supplemented at individual plants, the pattern of settlements tends to be more uniform than in the UK.

The proposal for more co-ordination is not considered an option by the present leadership of the Conservative Party, which during the last 11 years has encouraged further decentralisation of pay bargaining. In the Labour movement many union leaders are wary that more pay centralisation could be the prelude for a statutory incomes policy.

The Labour Party is formulating its pay bargaining policy but it has ruled out a statutory incomes policy. In its policy review, the party says it would adopt a "more open approach to economic management, outlining... the likely course of the economy and the options facing the nation."

It wants regular talks between government, employers and unions on economic prospects and a new independent statistical unit to provide information on European pay. Its leaders will argue that participation in the ERM will make the unit's establishment more vital.

Michael Smith



Winning hand loses two aces: John Smith and Labour's deputy leader Roy Hattersley

ECONOMIC DEBATE

Labour shifts the attack to underlying problems

LABOUR yesterday signalled a tactical shift in its assault on government economic policy in the light of Britain's ERM entry, to focus more on underlying structural problems such as training and industrial strategy.

Mr Neil Kinnock, Labour leader, joined a chorus of his party's economic spokesmen by stressing that the move was a "necessary, but far from sufficient" condition for economic recovery. They said it would bring only short-term gain unless backed by policies to tackle deep-seated economic problems.

The change of emphasis highlights Labour's implicit recognition that Friday's announcement will significantly alter debate at Westminster on the economy - and Europe. Previously, Labour attempted to score political points over differences between Mrs Margaret Thatcher and the Treasury. It urged swift entry into the ERM and sought to portray itself as the more pro-European party.

Labour yesterday said its immediate concerns about delaying ERM entry had been stemmed but they were as nothing compared to its fears about the remaining economic problems. Mr John Smith, shadow chancellor, said securing ERM entry, lower interest rates and credit controls had been "just what the Government should do now."

He said ERM had to be accompanied by "ERM" -

industrial recovery measures. That would include measures to stop investment falling, boost education and training, and promote exports and a vigorous use of regional policies.

Ms Margaret Beckett, shadow chief secretary to the Treasury, said problems of the "real economy", including poor education and training, would come higher up the political agenda as the next election approached - particularly if inflation was falling.

"Our theme has long been the needs of the real economy," she said. "Inflation is extremely important but I would be surprised if it was quite the same focus of attention at the general election as it is at the moment."

Echoing Mr Smith, Mr Gordon Brown, Labour's trade and industry spokesman, said the government had to "rise to the industrial challenge" of ERM entry. "Without the industrial measures we have consistently outlined, British industry will not get the full benefit from entering."

On the wider question about where joining the ERM had left debate on future European economic and monetary union, Labour found it harder to distinguish itself from the government's position.

Official party policy is that ERM entry makes greater co-operation on monetary policy between European Community countries "both inevitable and desirable". But there is considerable opposition within

the party to a headlong rush towards Emu as set out in the Delors report and to the setting up a non-accountable European central bank.

Labour also argues that a "bedding-in" period is needed following sterling's ERM debut before further steps are taken. Like Mrs Thatcher and the chancellor, it believes decisions on a single currency are irrelevant at this stage and wants more debate about Emu.

Where there are differences is in the objectives Labour would seek from European integration. The shadow chancellor said his party placed greater stress on promoting the social charter as a means of furthering cohesion within the community. He also wanted effective regional policies within the EC.

Labour frontbenchers know that in their own ranks there are sharp differences about European integration - at least on the means by which it is achieved, if not the objectives. So far these have been kept under wraps by concentrating on ERM entry as a first step and expressing caution on subsequent stages.

With December's inter-governmental conference on economic and monetary union fast approaching, and the debate on ERM entry removed from the political agenda, that fragile alliance will become far harder to sustain.

Ralph Atkins

THE
CHANCELLOR
HAS TAKEN
US INTO THE ERM.
WHERE WILL
THIS TAKE YOUR
BUSINESS?

For an informed view, call Tim Goode on 071-260 0166,
or David Simmonds on 071-260 0779.

Midland Montagu Treasury Sales
10, LOWER THAMES STREET LONDON EC3R 6AE.

MIDLAND MONTAGU IS THE INTERNATIONAL AND INVESTMENT BANKING ARM OF MIDLAND GROUP
ISSUED BY MIDLAND BANK plc.



UK NEWS

Stricter aero-engine checks likely

By Paul Betts, Aerospace Correspondent

AIRCRAFT ENGINE makers are expected to face much more stringent certification procedures when they develop derivatives of existing engine designs, as a result of the Kegworth air crash.

That is one of the main conclusions of the investigation into the Kegworth, Leicestershire, disaster, in which 47 people died when a British Midland twin-engine Boeing 737-400 crashed in January 1989 on the M1 motorway. The accident occurred when the pilot shut down the wrong engine after a broken fan blade had damaged the other engine.

The CFM56-3C engines powering the Boeing 737 were new derivatives of the CFM56 engine family jointly manufactured by General Electric of the US and Snecma of France. Snecma officials said in Paris that the technical flaw in the derivative engine would have been seen immediately if it had gone through the full certification process required for brand new engines. However, it did not show up in the normal, less rigorous certification process for derivative engines.

The French engine maker expects the report on the Kegworth disaster - by the Air Accident Investigation Branch of the Department of Transport - to recommend that in future even derivative engines should undergo the longer and more costly certification process for new engines.

"Even if the report does not recommend this change,

aero-engine makers will do it because they cannot afford to allow such problems to happen," a Snecma official said. Heavy vibration developed in the 3C engine when it was operating at full thrust during takeoff. On three occasions, including Kegworth, a fan blade ruptured as the aircraft was on its final climb.

After the failures, aircraft fitted with CFM56-3C engines were grounded. Snecma and GE fitted shock absorbers to the blades as the first step to enable the aircraft to fly again. However, to enable the engines to operate at their full power ratings, Snecma and GE are modifying the span between the fan blades.

Mr Louis Gallois, Snecma's chairman, said in an interview that 370 CFM56-3C engines were being retrofitted. An additional 850 CFM56-3B with lower power ratings were also being retrofitted at the request of airlines, although the 3B version has had no such malfunction. Mr Gallois explained that airlines wanted the change done on the 3B version, which has thrust of up to 22,000 lbs, in order to produce commonality with the 3C, which has thrust of up to 23,500 lbs.

Mr Gallois, who declined to disclose the heavy cost of the engine modifications, said he had been "very impressed" by the thoroughness of the Kegworth accident report, which the British government is expected to make public later this month.



Louis Gallois: "very impressed" by Kegworth crash inquiry

The report is expected to make a number of important new safety recommendations, including proposals to strengthen aircraft cabin floors, the fitting of rear-facing seats in aircraft, changes in cockpit instrument displays, and the fitting of television cameras outside the aircraft so that pilots can see what is happening to the engines.

Mr Gallois acknowledged that the malfunction of the CFM56-3C engine had been a difficult trial. "It was our first crash. But we resolved the

technical problems and we were able to show airlines that CFM could give them an efficient and rapid support and response. It was very difficult but it made us more credible."

Airlines have placed firm orders for more than 7,000 CFM56 engines in all versions and about 4,000 engines have already been delivered to customers. The CFM programme was now profitable and Snecma planned to increase the number of its engine development programmes from four to six or seven.

NEWS IN BRIEF

Haughey in fresh pledge to Brooke

MR Charles Haughey, prime minister of the Republic of Ireland, yesterday emphasised his backing for renewed efforts by Mr Peter Brooke, the Northern Ireland secretary, to set up inter-party talks in Ulster. He insisted on direct involvement in any discussions.

Mr Haughey, speaking at an event in County Kildare to commemorate the Irish patriot Wolfe Tone, said Dublin had made clear its willingness to "negotiate new arrangements which could transcend the Anglo-Irish Agreement".

He listed a number of issues still causing concern to the governments in both London and Dublin, including alleged harassment by the Northern Ireland security forces, the closing of border roads and the procedures for holding suspects for interrogation.

Eurotunnel loan

EUROTUNNEL is expected to announce early this week that it has made progress towards completing the £2bn package of new bank loans which it needs to cover its escalating budget.

That would clear the way for a rights issue of £500m next month, and increase the project's total finances to £2.5bn, equivalent to its latest cost estimates.

Pergamon price plan

PERGAMON Press, the scientific publishing arm of the Mr Robert Maxwell's NCC publishing group, is to raise the prices of its English language journals across the European Community.

There was concern in Brussels that the company was restricting cross-border shopping.

Women priests hope

EARLY indications of the results of this week's elections to the General Synod, the Church of England's ruling body, suggest a move towards the election of priests who favour the ordination of women.

Last year the Synod voted in favour of the principle of women priests.

SeaCat in dry dock for a further week

By Richard Tomkins, Transport Correspondent

SEACAT, the wave-piercing catamaran that was intended to revolutionise ferry travel between Britain and the Continent, enters its fourth week in dry dock today as attempts continue to solve its teething troubles.

The 510m vessel made an ignominious debut on the route between Portsmouth and Cherbourg on August 14, having suffered five postponements before entering service two months behind schedule. Inside three weeks it was withdrawn from service because of technical trouble. Operations resumed for 10 days but the vessel was withdrawn again on September 17 and has been in dry dock since.

Hoverspeed, the vessel's owner, says it expects the SeaCat to go back into service on Monday next week. It has not yet decided whether to operate the vessel through the winter season, which starts a fortnight later.

SeaCat is the largest wave-piercing catamaran in the world and the first to carry cars as well as passengers.

Hoverspeed says its teething troubles are attributable to its unprecedented size.

The two faults keeping it in dry dock are said to be weaknesses in the huller intakes which feed the vessel's water jets, and difficulties with the vessel's trim resulting in an unsteady ride.

Rival operators say that when the vessel encountered rough weather during its brief period of service, most of the passengers and many of the crew were ill.

Hoverspeed is confident that the troubles can be put right, and its commitment to the introduction of wave-piercing catamarans on cross-Channel services is undiminished.

It has 10 SeaCat-class vessels on order from the manufacturer, International Catamarans, of Tasmania.

Three are due to replace its ageing hovercraft on the routes between Dover and Calais and Dover and Boulogne next year. One is due to join the Portsmouth and Cherbourg route and the rest may go to the Mediterranean.

Gloom seen in financial services

By David Lascelles, Banking Editor

GLOOM settled over the financial services industry in late summer, according to the latest survey by the Confederation of British Industry and Coopers & Lybrand Deloitte.

Nearly one company in two reported that business was below normal. Two in three said they were less optimistic than three months earlier.

Today's entry into the exchange-rate mechanism of the European Monetary System may change prospects but the results reflect the serious effect of high interest rates and low stock market turnover.

Meanwhile, a survey by Dun & Bradstreet shows business confidence in Britain to have fallen sharply over concern about the Gulf crisis.

The survey gauges the level of confidence as being the lowest since publication began three years ago.

CBI/Coopers & Lybrand Deloitte. Quarterly Survey of Financial Services. CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU.

Exchange Travel hopes fade

David Churchill reports on the state of the tour trade

ADMINISTRATORS for Exchange Travel, the holiday company that went into receivership last month, appear to have given up hope of selling the company in one piece to a rival chain following the decision by the A.T. Mays travel group to pull out of a deal.

Exchange Travel went into receivership with debts believed to amount to more than £30m. The administrators say they still hope to find buyers for at least some of the company's 65 travel shops which have remained shut for the past two weeks.

The company's failure is thought to affect at least 100,000 holidaymakers and comes at a difficult time for most in the industry. Package holidays next summer are sluggish. Many potential customers are holding back because of the combination of high interest rates, high inflation and

uncertainty posed by the Gulf crisis.

The competitive market has led most travel agents to discount their holidays. That means that profit margins are often 1 per cent or less.

So far this year the number of travel agencies to have given up membership of the Association of British Travel Agents has reached nearly 40, more than double the figure that had collapsed by this stage last year.

Exchange's demise poses particular difficulties for the Abta, the industry's main trade body. It has guaranteed that no Exchange Travel customer will lose out.

Abta's potential liability is estimated by some travel sources as £2m, although that might be significantly larger when the administrators complete their investigation into the company.

Abta will meet this week to determine whether all travel agents should now establish a financial bond with it to cover any potential losses from bankruptcy.

Leading tour operator Thomson Holidays is also insisting that the travel agents with which it deals should provide a bond to cover any losses.

Abta will have to cover the cost of holidays booked by Exchange customers because the company's trading was not covered by the usual bond with Abta which most travel agents have to hold.

Exchange was considered to be financially sound because of its long trading record. It was celebrating its centenary in the travel business this year.

Last week three more travel agencies went into liquidation - in Blackpool, Chorley, and Sheffield - with the loss of six outlets.

FT SATELLITE MONITOR

Sky and BSB installations show first pause

By Raymond Snoddy

DURING SEPTEMBER there was no net increase in satellite television installations receiving services from Mr Rupert Murdoch's Sky Television or British Satellite Broadcasting, according to the latest FT Satellite Monitor. It is the first month without an increase.

The apparent pause in the number of installations coincides with a large upward swing in the size of the potential market - those who say they will definitely or probably install satellite TV receivers.

The estimated number of homes with satellite TV receivers for September is 1,017,000, a

42,000 decline on the August figure. The survey is based on interviews with more than 5,000 adults and is subject to a sampling error of plus or minus 50,000.

Continental Research, which carries out the survey for the Financial Times, emphasised that the new total was a net figure and likely to be influenced by the fact that Sky Television has recently cut off a significant number of homes for non-payment.

Mr John Clemens, chairman of Continental, said yesterday: "The best interpretation of this month's figure is that there

has been no net gain and the total number of satellite system installations continues to be at around the 1m level."

The survey puts the number of Sky-receiving homes at 891,000 and the figure for BSB (a consortium in which Pearson, publisher of the Financial Times, has a significant stake) at 128,000, including individual channels received through communal services in blocks of flats.

The sample identified a total of 194 homes with satellite receivers. Of those, 170 used Astra, capable of receiving Sky and the other Astra channels

such as MTV, Screen Sport and the Children's Channel, and the rest were BSB.

The September total of slightly more than 1m means that in the past year more than 750,000 new homes have been added to the total and that 4.7 per cent of British homes now receive multi-channel TV direct from satellite. If those who receive the new channels on cable TV networks are included, the figure is 8.5 per cent, or one in 15 homes. Since August, the total potential satellite TV receiver market has risen by more than 500,000 to 3.3m, compared with 2.78m.

YES. IT IS A VOLVO.



INTRODUCING THE VOLVO 960

VOLVO

UK NEWS

Lloyds Bank Base Rate.

Lloyds Bank Plc has reduced its Base Rate from 15 per cent to 14 per cent p.a. with effect from the close of business on Monday 8 October 1990.

All facilities (including regulated consumer credit agreements) with a rate of interest linked to Lloyds Bank Base Rate will be varied accordingly.

The change in Base Rate will also be applied from the same date by the United Kingdom branch of The National Bank of New Zealand Limited.



Lloyds Bank

THE THOROUGHbred BANK.

Lloyds Bank Plc, 71 Lombard Street, London EC2P 1JN.

Standard Chartered

Base Rate

On and after
October 8th 1990
Standard Chartered
Bank's Base Rate for
lending is being
decreased from
15.00% to 14.00%
Standard Chartered Bank

Head Office 38 Bishopsgate, London EC2N 4DE
Tel: 071-280 7500 Telex: 885951



With effect from the close
of business on
Monday, 8th October 1990
and until further notice,
TSB Base Rate is decreased
from 15% p.a. to 14%

All facilities (including regulated consumer credit agreements) with a rate of interest linked to TSB Base Rate will be varied accordingly.

TSB Bank plc, Retail Banking,
60 Lombard Street, London EC3V 9EA



Courts & Co.
announce that their
Base Rate
is reduced from
15% to 14% per annum
with effect from the
8th October 1990
until further notice.

All facilities (including regulated consumer credit agreements) with a rate of interest linked to Courts Base Rate will be varied accordingly.

Courts & Co.

440 Strand, London, WC2R 0QS

Health managers put trust in consultation

Alan Pike looks at how the government's NHS reforms are being put into practice

CONSULTATION - a concept elastic enough to stretch from negotiation to flimsy public-relations stunts - is in progress on the government's plans for self-governing hospital trusts.

Cynics claim that the consultation exercise comes close to the public-relations end of the scale. Later this year, after the three-month public consultation period, Mr Kenneth Clarke, health secretary, will decide which of 66 applicants should be granted the new freedom of trust status when the government's health reforms are introduced next April.

Mr Clarke is seeking further trust applicants for 1992 and said last month trusts should become the chosen model of management for all hospitals and other health care units. In such circumstances, opponents say, the consultation exercise is unlikely to persuade him to abandon most of the 66 aspiring pioneers.

Regional health authorities will evaluate trust applications for financial and managerial strength and likely benefits to patients, and report the results with responses to the consultations - to Mr Clarke.

The Association of Community Health Councils, which represents consumer interests in the health service, has complained to the government that some regional authorities have established inadequate channels for sounding opinion and are not even bothering to consult community and voluntary organisations.

In spite of such criticisms,

the consultation process is provoking all the emotion and bitterness of a hard-fought by-election in some areas.

At Brighton, district health authority managers who want to transfer most of their hospital services to a trust are facing organised opposition from a Stop Hospitals Opting Out campaign. The campaign, backed by the British Medical Association, Royal College of Nursing and health service unions, is receiving tacit support and town hall office space from the Labour-controlled Brighton Council.

Not all consultation exercises are proving as passionate as the Brighton one, which has generated car stickers, T-shirts, badges and a vigorous correspondence between the two sides in the local press. At Croydon, south London, a mobile exhibition on plans to create a trust for the borough's district nurses, health visitors, school nurses, speech therapists and other community service staff has been attracting a modest trickle of visitors to clinics, health centres and public buildings.

It is a safe assumption that many people have no idea of how the community health services are managed at present, and are less likely to be concerned about plans for change than when famous hospitals are involved.

"We are a relatively small service in a much bigger one dominated by large institutions," says Ms Judy Hargadon, the community unit general manager who, with management colleagues, developed the trust proposal.

"Last year the acute hospital services were running over budget, so the spending on community services was cut to help balance the district's books. I don't claim that becoming a trust will bring us vast amounts of extra income, but it will allow us to keep what is ours and plan our services more efficiently."

The prospect of trust status is stimulating a "management buy-out" type of enthusiasm in some NHS managers who consider that it will offer opportunities to improve efficiency and trim bureaucracy. Part of their difficulty in persuading other people to see it that way is that trusts remain one of the central issues upon which political opposition to the government's health reforms tends to focus.

The squeeze on local government finance meant that local authority house building would virtually cease, home improvement grants for home owners would be severely rationed, refurbishment and maintenance of council housing would fall sharply, and local authorities' ability to take part in joint initiatives with house builders and commercial property developers would be severely restricted.

The report says the government must "act to end the crisis in housing association funding" which has caused many schemes to be put on ice. If it would not make more funds available for new schemes in 1990-91, the government should at least subsidise additional debt servicing costs of housing associations.

City Grant - intended to help finance otherwise unviable private-sector building schemes - has never been properly promoted by the government, says the report. A study of developers in the north-west showed that many were "confused by the multitude of different Action for Cities programmes and did not fully appreciate the special relevance of City Grant to property development."

The squeeze on local government finance meant that local authority house building would virtually cease, home improvement grants for home owners would be severely rationed, refurbishment and maintenance of council housing would fall sharply, and local authorities' ability to take part in joint initiatives with house builders and commercial property developers would be severely restricted.

The report says the government should increase the scope for partnership schemes between local authorities and developers in inner city areas.

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

Urban Stail, BEC, 82 New Cavendish Street, London W1M 8AD. 240

UK NEWS

Regional electricity companies may go for telecom market

By David Thomas, Resources Editor

ELECTRICITY companies may try to win telecommunications business after their privatisation planned for December.

A group of senior executives from the 12 regional electricity companies in England and Wales are to draw up options for moving into the telecoms market.

Some chairmen of the companies believe that telecommunications is a natural market for them because a fibre optic network could be built along the industry's transmission grids.

In theory such a network could be used to mount a full-scale assault on British Telecom, although attempts to pick up segments of high value business telecommunications traffic are more likely.

British Rail and London Transport are considering schemes to install fibre optic cables alongside their tracks.

The electricity industry's telecoms study group, led by Mr David Morris, chairman of Northern Electric, might make a submission to the govern-

ment's review of the British Telecom-Mercury Communications duopoly which is due to start soon.

However, the study group will not conclude its work until the companies have been privatised for fear of raising concerns about future plans in the minds of potential investors.

Almost all the regional companies have been cultivating a cautious image by emphasising their determination to concentrate on their core electricity distribution functions in their early years in the private sector. Northern Electric, for example, has backed away from previous plans to invest in cable television.

Joint ventures with the new breed of independent electricity producers are the only type of diversification which most regional companies have admitted considering.

The regional companies therefore wish to avoid public statements on their interest in telecommunications before the publication of their privatisation prospectuses.

Training bill lower than claimed, says Labour

By Lisa Wood

ANNUAL expenditure on training by employers is substantially less than the £14.4bn that the government claims, according to a report by the Labour Party.

The report, which will be published later this month, said the overall direct expenditure on training averaged £156 a year per employee, "a mere 10 per cent" of the figure quoted in the government's recent report, Training in Britain, said Mr Henry McLeish, Labour's spokesman on training.

The Labour party's study is based on published and unpublished data from the Government's Labour Costs Survey 1988.

Mr McLeish said this

included training support costs such as training centres and the wages and salaries of trainees and "excludes the more abstract and unquantifiable costs" used in Training in Britain such as the foregoing of salary by the individual during training and general corporate overheads.

The Labour party is looking at how the French system of companies being statutorily obliged to spend a fixed amount on training could be adapted to the UK.

According to the report annual training expenditure per employee by sector, including wages, varied from 0.9 per cent of total labour costs in distribution to 2.5 per cent in construction.

Government desire to clamp down on spending risks bitter party row

By Philip Stephens, Political Editor

THE TREASURY'S determination to hold public spending to below £200bn next year threatens a bitter behind-the-scenes row over the health, education, defence and employment budgets at this week's Conservative Party conference.

The row - the most serious since the early 1980s - will underline the weekend message of treasury ministers that sterling's participation in the EMS exchange rate mechanism is not a signal for a pre-election spending boom.

Mr John Major, the Chancellor, warned repeatedly at the weekend that curbing inflation would remain his key priority. He dismissed suggestions that the ERM decision was designed to pave the way for a snap election next June.

Whitehall officials stressed that the government was not prepared to undermine sterling's credibility within the system by relaxing fiscal policy. Mr Major, however, implicitly acknowledged that a higher level of inflation meant that it would be impossible for the Treasury to stick to its £192bn target for public spending in the financial year beginning next April.

It is thought that, instead, it is attempting to limit the overshoot to around £5bn or so in order to keep below £200bn.

Assuming that the financial markets continue to react favourably, the government believes the decision to join the ERM will provide the backdrop for a "clear and confident" tone when the Bourne-mouth conference opens tomorrow.

Mr Kenneth Baker, the party chairman, said in an interview with the Financial Times that the government's commitment to opportunity, choice, the environment and strong leadership would provide the central theme.

Mr Baker, however, said that ministers would avoid specific pledges for inclusion in its manifesto at the general election.

Despite the EMS decision the date of the election remained undecided: "All options are open - 1991 and 1992... clearly we will choose to go when we think we will win".

He added that "I have made it clear that this is not a manifesto conference".

Senior ministers were privately admitting that the public spending negotiations had become increasingly acrimonious.

A number of departments, including the Foreign Office, North Ireland, Environment

and Transport are thought to be close to settling their budgets.

Mr Tony Newton, the social security secretary, is said to be resigned to accepting a freeze on child benefit and tough limits on some other, discretionary, benefits in return for the extra £2bn needed to uprate pension and social security payments in line with inflation.

Mr Kenneth Clarke at Health, Mr John MacGregor at Education, Mr Tom King at Defence and Mr Michael Howard at Employment, however, have reached deadlock in



Kenneth Clarke has reached deadlock with Treasury

their negotiations with the Treasury.

The four are said to be ready to demand, if necessary, that the Star Chamber of senior ministers be convened to adjudicate on the disputes.

Mr Clarke, whose reforms of the National Health Service are to be implemented next year, needs about £2bn simply to hold his budget steady in real terms.

He has warned Mr Norman Lamont, the chief secretary to the Treasury, that the health service will face a politically damaging financial crisis in the run up to the general election unless his demand is met.

Mr Howard is resisting Treasury demands for cuts in the budgets of the government's new Training and Enterprise Councils, while Mr Tom King, the defence secretary, is arguing that the Gulf crisis means that cuts in his budget should be shelved indefinitely.

The Labour's Party's decision to put education at the centre of its campaign at the election has strengthened the hand of Mr MacGregor, but treasury officials insist that he will have to accept only a fraction of his original bid.

Kenneth Baker, Conservative spokesman, Page 34.

INTERNATIONAL MOBILE COMMUNICATIONS

The Financial Times proposes to publish this survey on:

15th October 1990

For a full editorial synopsis and advertisement details, please contact

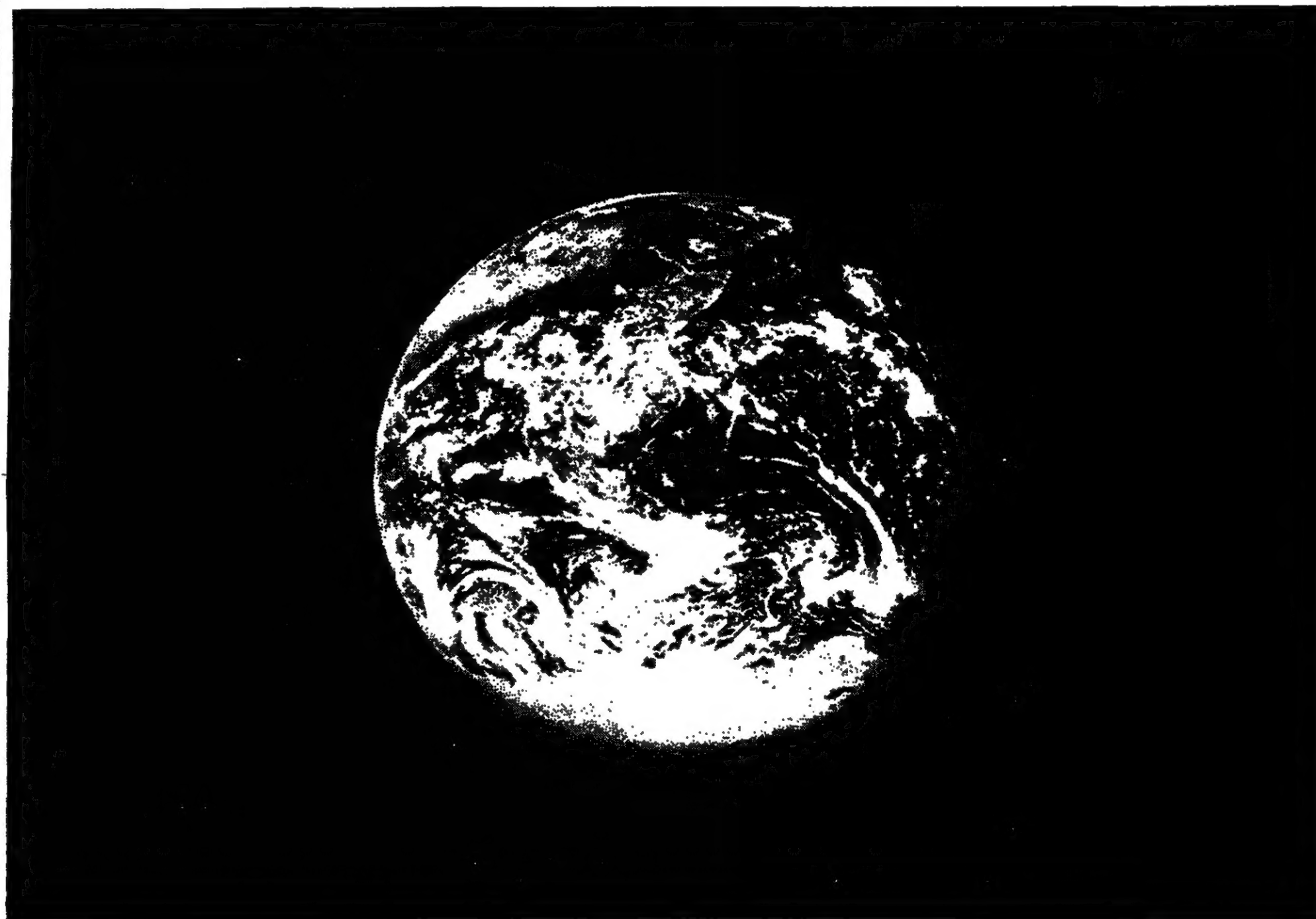
Alison Barnard
on 071 873 4148

or write to her at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER



American Re's products and services are only available at the above location.

Today you need a reinsurer with financial stability, innovative products and services, and a strong international presence in order to respond to your clients' global needs. American Re has been in business for over 70 years, and we have offices in 23 locations worldwide staffed by local experts. We have the capability to create customized programs that keep you current in a changing world. Update your global strategy. Talk to American Re.

AMERICAN
RE-INSURANCE COMPANY

American Re Plaza, 555 College Road East, Princeton, NJ 08543-5241, Telephone: 609 275-2000

Atlanta • Boston • Buffalo • Chicago • Columbia • Dallas • Hartford • Kansas City • London • Los Angeles • Melbourne • Mexico City • Minneapolis • Montreal • New York • Philadelphia • Princeton • San Francisco • Santiago • Singapore • Sydney • Tokyo • Toronto

BARCLAYS BANK
BASE RATE

Barclays Bank PLC and

Barclays Bank Trust

Company Limited

announce that with effect

from 8th October 1990

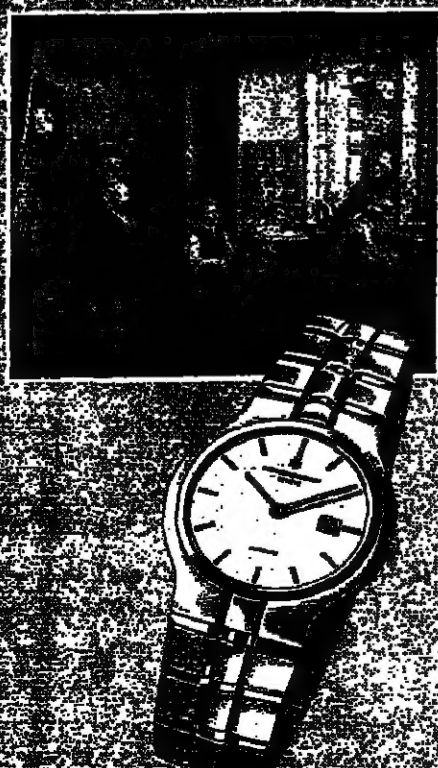
their Base Rate is decreased

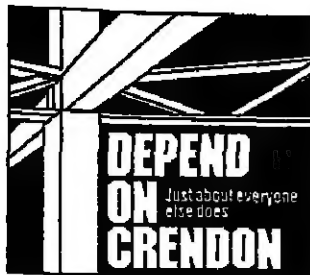
from 15% to 14%.



BARCLAYS

BARCLAYS BANK PLC AND BARCLAYS BANK TRUST
COMPANY LIMITED ARE MEMBERS OF IBCG.
REG. OFFICE: 54 LOMBARD STREET, EC3P 3AE.
REG. NO'S 102667 AND 97088.





Hi-Spec structures for Hi-Tech Industries
Crendon Structures Ltd, Long Candon, Aylesbury,
Bucks. HP8 5BB. Tel: Long Candon (0494) 709481
Fax: (0494) 201822 Telex: 53294

IN BRIEF..

MOWLEM NORTH WEST has started work on the £3m "Wiral Leisureland" development at Croft Estate, Bromborough, for THL Developments of Chester.

The first complex of its kind in the area, it will comprise a seven-screen multiplex cinema, 10-pin bowling alley, brasserie and nightclub, all operated by Rank Leisure.

The £3.25m contract for the shell of the building, which will cover 90,000 sq ft and have parking for 1,300 cars, will be completed by May 1991.

Contracts worth nearly £5.8m have been won by LAING YORKSHIRE for projects in York, Bradford and Leeds. The largest is a £5.1m contract from General Accident for 5,200 sq metres of shops and offices in Swingate, York. The development will be built on piled foundations with reinforced concrete frames clad with brickwork.

In Leeds, the company is converting a former toy store in Thornton's Arcade, Brigsteed, into four shops. Each one will have a ground floor retail area with new shopfront, first floor staff area and second floor storage area. The contract, awarded by Co-op Insurance, calls for timber floors, staircases and doors.

J.JARVIS & SONS has started work on three contracts in London and Surrey totalling £8m. The largest is a £5.6m offices and residential development in Bedfordbury, WC2, for College Estates.

The work is in two sections comprising a five-storey office block with basement and a six-storey residential block of 90 flats with a landscaped first floor deck and a ground floor car park.

In Lowndes Square, SW1, additional refurbishment work valued at £1m is being carried out on apartments for Sun Life Properties and in Camberley High Street the £1.3m groundworks and superstructure of a town centre redevelopment is under way.

CONSTRUCTION CONTRACTS

Housing associations' plan

COUNTRYSIDE PROPERTIES has started work on one of the largest new social housing developments to be carried out in London in recent years. Under a £14.7m contract with the South Docklands Housing Consortium, which comprises seven local housing associations, the Essex-based company will construct 264 homes in south east London.

The homes are being built on three sites in the former Sur-

rey Docks, known as Norway Yard, Barnard's Wharf and Finland Quay. A total of 203 homes will be provided on the Norway Yard and Barnard's Wharf sites, with accommodation ranging from one bedroom flats to five bedroom houses and including a warden-assisted complex for the elderly, which commands a riverside location overlooking the River Thames and Canary Wharf.

Planning consent was

granted by the LDDC last month for the third site, Finland Quay, and work will start in November. Countryside's scheme will provide 59 one and two-bedroom flats and two three-bedroom houses on the one acre site, which features a substantial water frontage. Finland Quay is one of the last vacant sites in the London Dockland Development Corporation's award-winning Greenland Dock.

Fitting-out Essex department store

Building workers from **TARMAC CONSTRUCTION** are fitting-out a new department store as part of contracts received worth nearly £12m.

A £7.1m project, at The Exchange Shopping Centre, Ilford, is being undertaken for the Owen Owen Group.

It involves fitting-out the three floors, each with a suspended ceiling and raised

floor to conceal services and the provision of a restaurant, staff area, escalators and feature lifts. The project, due for completion next summer, is being undertaken by the Harpenden office.

The company also has two office refurbishment contracts in the north of England - at Leeds a £3.3m contract for British Telecom and at Salford a

£451,000 contract for Midland Bank.

Two projects for housing associations have been awarded to the contract division. Both contracts, each valued at about £1m, are for work on homes at Wood End, Coventry, for Orbit Housing Association, and designing and building homes at Bolton for Portico Housing Association.

Offices development in King's Cross

WILLETT, a Trafalgar House company, has been awarded contracts worth £7.1m for work in London and Trowbridge.

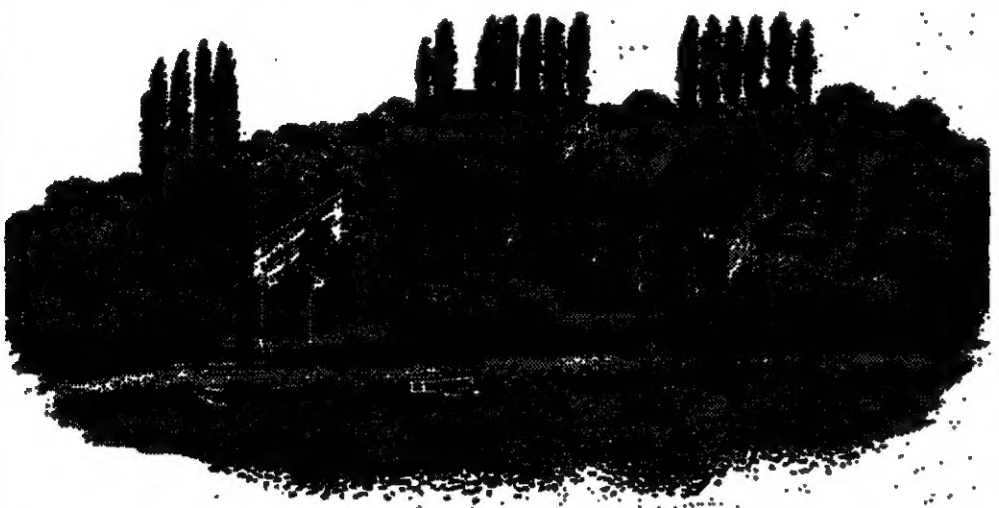
At Pentonville Road, in London's King's Cross area, Willett has started work on the construction of a seven-storey

office building with a gross floor area of 3,590 sq metres.

The £4.7m contract is for Refold (King's Cross) and includes in situ reinforced concrete bored pile foundations and pile caps being carried out under a sub-contract by sister

company, Cementation Piling and Foundations.

A prefabricated metal main staircase with stainless steel balustrading is included with aluminium double glazed windows, curtain walling and two passenger lifts.



TRY CONSTRUCTION, a subsidiary of Try Group, has been awarded an £8m contract to build an office campus scheme (pictured) at Cowley, near Stockley Park and Heathrow Airport. The 86,000 sq ft development, called the "Grand Union", comprises two and three-storey air conditioned office buildings with individual units of 5,000 sq ft and 20,000 sq ft built in traditional style in brick under pitched roofs. The site will have substantial landscaping to complement the waterside environment provided by the Grand Union Canal which borders the site.

LEGAL COLUMN

Firm sees fresh fields in Frankfurt

By Robert Rice, Legal Correspondent

AT THE end of this month City solicitors Freshfields will open its doors for business in Frankfurt, in what used to be West Germany. In doing so it will become only the second of the leading UK law firms to open in Germany.

When Clifford Chance opened in Frankfurt in January, in conjunction with Gleiss & Partners, one of Germany's leading commercial practices, it highlighted a difficulty that had been concerning the large UK and US law practices for some time: should they or shouldn't they open an office in one of Germany's main commercial centres?

At the time, most of them appeared to think that it would be better, from their clients' point of view, to maintain close relationships with Germany's top commercial law firms and to refer work to them when advice was needed on German law.

Momentous things have happened in Germany since January, but the arguments for or against opening a law office there have changed very little as a result of reunification.

West Germany was already Europe's largest economy and in that respect there were sound reasons for being there long before the Berlin Wall came down.

However, two events that occurred since January have had quite a considerable bearing on the question. The first was the announcement in February by Freshfields that it intended to open a Frankfurt office, and the second was the formation in April of the "Alliance of European Lawyers" involving five of continental Europe's leading law firms.

If Freshfields originally felt, like most of the other leading firms, that its clients' interests were best served not by opening an office in Germany but by providing them with advice from a combination of the best firm in the UK and the best firm in Germany, what caused it to change its mind?

Mr Julian Francis, who will be the managing partner of the Frankfurt office, says the firm doesn't really look at the issue in those terms.

Even when the firm is well established, Mr Francis expects relations with other top commercial German law firms to remain friendly. German lawyers are badly overworked at the moment, so there is plenty

of scope for doing work without putting a strain on relations.

Neither are they setting up in Frankfurt for cosmetic effect. "We wouldn't be doing this if we thought it wasn't going to be profitable," he says.

Freshfields wants to build an office in Germany to compare with its Paris office, which over the last 15 years has become one of the most successful and respected commercial law practices in France and now boasts some eight partners and 40 lawyers, three quarters of them French.

It will take time to build up a German practice of similar size and stature, but the firm eventually is to be able to offer clients combined UK/German advice and French/German advice on the ground. The initial staffing of the office reflects those requirements. There will be two UK lawyers,

once is to provide a cohesive pan-European service through teams of specialists from each member country.

The significant point about it is that it contains no UK law firm. The Alliance says that the member firms decided that they each enjoyed such good relations with a number of the UK's leading commercial firms that it would be counterproductive to tie themselves into a semi-permanent relationship with just one.

Why do those two events affect the way UK firms look at the question of whether to open an office in Germany or not?

In relation to the Alliance, the answer is that if the trend towards multinational associations continues, then the freedom currently enjoyed by the leading City firms to refer the German end of transactional work to the German law firm best suited to deal with it may become restricted.

Firms such as Linklaters & Paines and Slaughter and May believe strongly that that is the best way of providing their clients with the best advice.

They are used to working with a trusted standard and expertise of firms such as Boden Oppenheoff or Frankfurt's Müller Weitzel Weisner. If their access to them is shut off because they have joined a multinational alliance for co-operation on international work, then there may be no alternative but to set up in Germany and build up their own expertise in German commercial law.

Given that it will take a long time to build up the sort of expertise offered by Germany's established commercial law firms, it is not a very attractive proposition either for the firm or its clients.

It remains to be seen how many more such alliances will be set up. Some lawyers believe the Alliance is already struggling and that it may well shake itself apart, discouraging others from following its example.

The difficulty, the cynics say, is that each firm goes into the arrangement thinking it is going to get more out of it than it is putting in. The trouble with that is that only one firm can be right and all the others must be wrong.

Others, however, feel that more European alliances, involving French and German

firms in particular, are inevitable. Mr Walter Oberst of Cleary Gottlieb Steen & Hamilton in Brussels says that although German firms have traditionally been small and have only recently been allowed to merge their own practices, they are now busy trying to reach "critical mass" so that they can start talking to Dutch and Belgian firms about forming alliances that will allow them to compete on equal terms with the large UK and US law firms in Europe.

The concern about Freshfields opening in Frankfurt is more straightforward. As Mr George Inglis, the senior partner of Slaughter and May, says: "Our concern about them being there is that they are seducing our German clients and they might seduce them away. If they get well known in Frankfurt it is possible that German banks, for example, might say, 'Well,

Slaughter and May fears its German clients may be seduced away

we talk to them in Frankfurt let's use them in London'.

"I think the reason Freshfields has gone into Frankfurt is to pick up German work in London. It's not going to make any sensible money on the ground for a very long time."

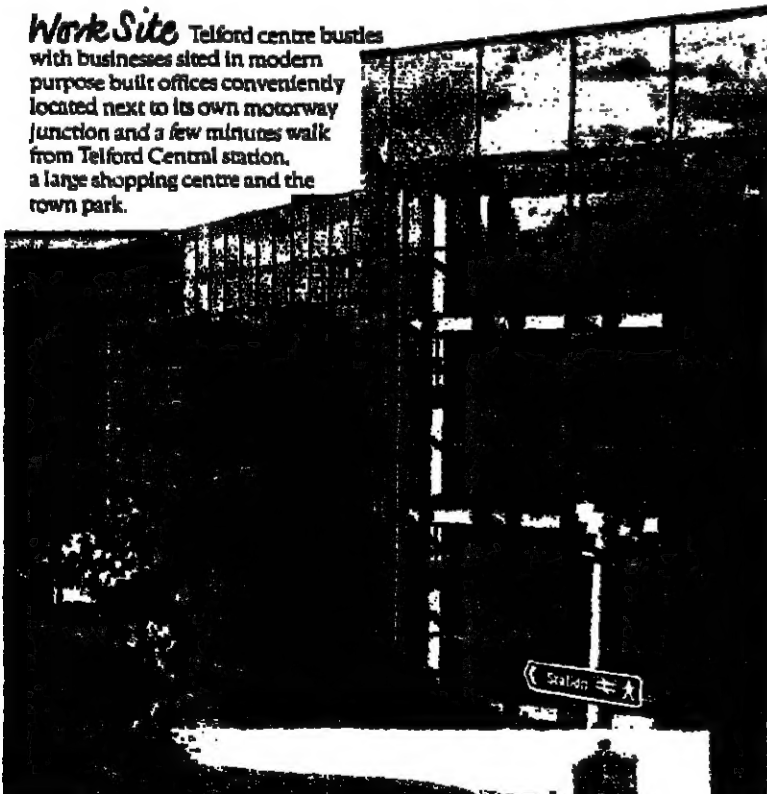
"We've made it known to German lawyers that we don't want to open an office there but we have also warned them that if it looks as if Freshfields has stolen a march on us and has picked work in London which we would have expected to get then we may have to follow suit."

Which would be a pity, he says, because if you believe, as Slaughter and May does, that a law firm's main purpose is to provide the best possible legal advice to its clients, then it is inconsistent to tell them that the best advice on a question of German law can be obtained from your German office, because it cannot.

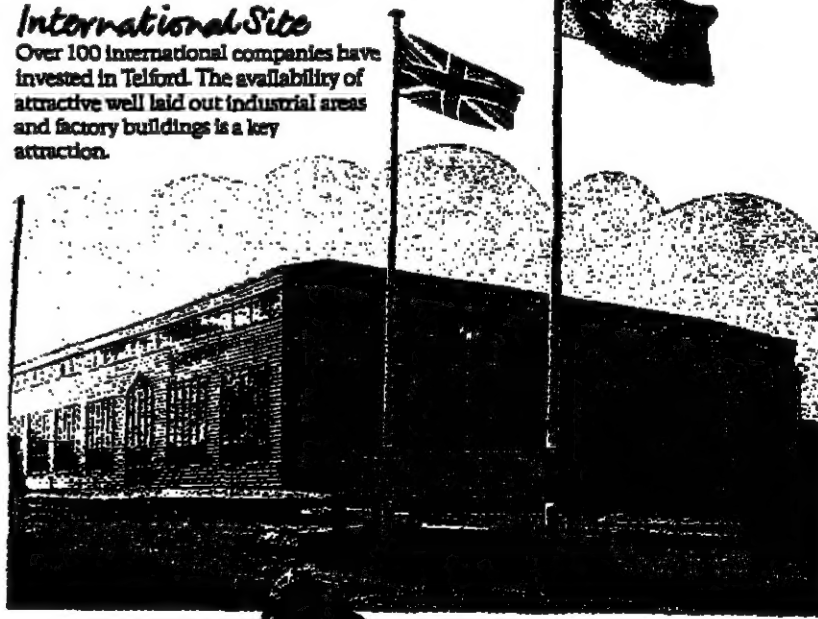
The best advice on German law, he says, will be available from the best German commercial law firms and it will take years to build up a German office to a position where it can provide a comparable service.

Set your sites on Telford. The companies and people of Telford enjoy a tremendous range of facilities in this modern community. Uniquely sited in the beautiful rural surroundings of Shropshire and yet just 45 motorway minutes west of Birmingham and the West Midlands marketplace.

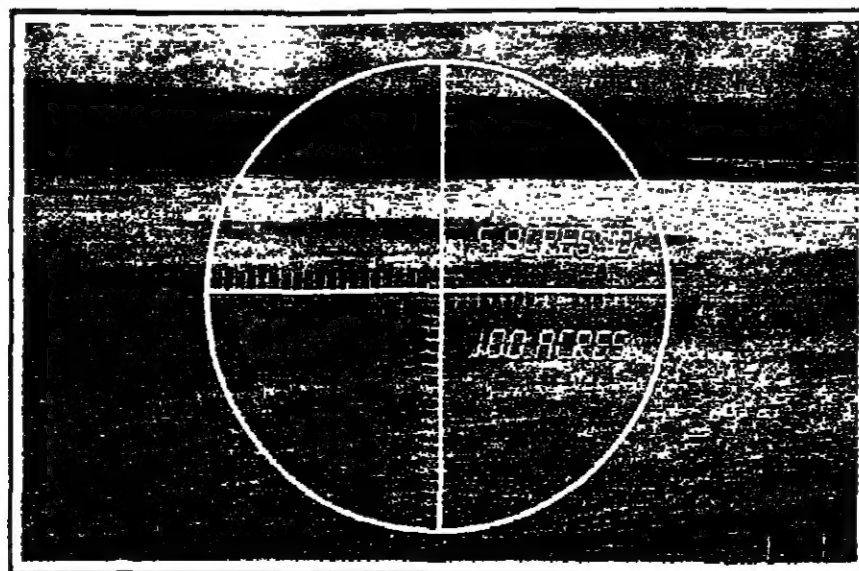
Work Site Telford centre bursts with businesses sited in modern purpose built offices conveniently located next to its own motorway junction and a few minutes walk from Telford Central station, a large shopping centre and the town park.



International Site Over 100 International companies have invested in Telford. The availability of attractive well laid out industrial areas and factory buildings is a key attraction.



World Heritage Site The World's first iron bridge spans the Severn Gorge, marking the birthplace of the Industrial Revolution.

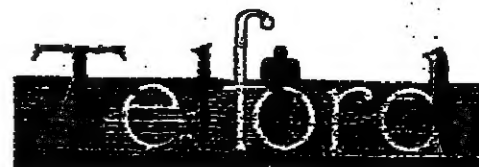


Sports Site The people of Telford enjoy a wide range of sports and leisure facilities including this ski slope.

Blooming Site The people and organisations of Telford take a real pride in the town's appearance. With impressive results.



Set your sites on Telford We have a variety of fully serviced green field sites for complete corporate complexes available now from 5 to 100 acres. This one at Donnington looking out over open countryside comprises two plots of 41 and 15 acres.



Call Commercial Director Chris Macdonald now on 0952 293131 or write to Telford Development Corporation, New Town House, Telford Square, Town Centre, Telford, Shropshire TF3 4JS.

... W A R S A W , 29th May 1990, BULL is selected to supply equipment to all the fiscal agencies of the Polish Ministry of Finance.

Proposed solution : Unix*-based BULL DPX/2 systems.
367 open system servers and more than 5,000 terminals and associated services.

... L O N D O N , 15th June 1990, The Inland Revenue in Great Britain awards Bull the IRON Project to implement an open-systems solution in its 632 district tax offices.

Proposed solution : Unix*-based BULL DPX/2 systems.
More than 900 open system servers and 25,000 intelligent workstations and associated services.

... P A R I S , 7th July 1990, after its outstanding performance during technical tests, BULL is chosen by the French Ministry of Finance to equip its tax offices.

Proposed solution : Unix*-based BULL DPX/2 systems.
300 open systems servers and 3,000 terminals and associated services.

BULL DPX/2 OPEN SYSTEMS, THE TREE WHICH GROWS FASTER THAN THE MARKET.

Worldwide
Information
Systems

Bull



MANAGEMENT

Corporate audits

Intangible cost of the environment

David Waller on moves by accountants to assess the impact of "green" issues for their clients

Earlier last month, one of the UK's big accounting firms launched an entirely new product: the so-called positive audit for the environment. Although cynics dismissed the initiative as a mere marketing device, this is an early sign that the accountancy profession is "going green".

Can accountants make a useful contribution to environmental protection? If they used recycled paper when conducting their audits, no doubt whole swathes of forest could be saved, but there is, perhaps, more to it than that. The bigger questions are addressed in a report by Bob Gray of the University of East Anglia.

The report argues that accounting is far from being a neutral mechanism for recording business transactions; it is a product of the very system of values which tolerates, even encourages man's despoliation of the planet in the pursuit of private gain. "Accounting is implicated in the construction of a social reality," the report contends.

Gray, who is reader in accounting at East Anglia, states that traditional accounting reflects the limitations of neo-classical economics. He argues that apparently innocuous double-entry book-keeping is shot through with the assumption that ownership does not entail any notion of stewardship, that property rights include the right to destroy the thing owned.

"Only things over which property rights exist can generate price," he says. Thus aspects of something that cannot be reflected in the price (eg land's ability to support animal life) "cannot be part of accounting's picture."

For much of the report, the argument is conducted at this sort of level - in a plane far removed from everyday commercial life - but Gray believes that accountants can do something to help. They have technical skills and a reputation for professional independence and excellence which ought to be diverted towards preserving the environment, he argues.

Indeed, this was the case put by Coopers & Lybrand Deloitte, the UK's largest accounting firm, when it launched its environmental audit service earlier last month. "Our audit teams are experienced in evaluating risks to your business," Coopers' marketing blurb says. "In assessing the controls which you establish in response to those risks and giving independent, objective advice based on our findings."

Gray's report asserts that the skills accountants deploy when conducting an audit of an industrial company can



easily be transferred to an environmental audit. Accountants have no direct knowledge about the life of specialist machinery, shipping law or the realisable value of a warehouse - but nevertheless manage to measure these imponderables with help from other experts. The report says that the same principle ought to apply to the measurement of site toxicity and waste emissions.

But elsewhere in the report, accountants are (rightly) criticised for not being able to come to any sensible conclusions on the measurement of intangibles such as brands, goodwill and the impact of inflation on reported profits. It will not be easier for the accountancy profession to come up with a way of measuring "depletions and degradations" of natural capital, which are even more intangible than brands and goodwill.

Towards the end of the report Gray acknowledges the magnitude of the task: "a fully representative integrated financial/social/environmental accounting system would be a colossal undertaking, and probably, in any realistic sense, impossible."

Nevertheless, Gray makes some tentative recommendations. Companies should develop an environmental department, he says. There should be regular monitoring, reporting and auditing of compliance with legal requirements. Energy audits should be set up, energy accounting considered. Emerging issues should be monitored, and "environmental impact analysis" should be considered. Each cost centre should have its environmental budget.

Also needed: a new classification of

assets to recognise the differences between man-made, natural and what the report calls critical capital. "Environmental asset accounting and maintenance" ought to be developed, as well as something called "resource-flow input-output analysis". These techniques are not explained in great detail and Gray admits that they suffer from a combination of "theoretical flaccidity and practical difficulty".

The report recommends the adoption of the United Nations initiative on external environmental reporting, which suggests, *inter alia*, that companies should include in their annual reports: the organisation's policy on the environment; the capitalisation of expenditures on the environment; identification of contingent liabilities which will arise in the course of bringing the company up to higher

environmental standards. The problem for accountants is that they have little power. Like other types of professional, accountants are in business to service their clients and will only jump on the environmental bandwagon when it seems profitable to do so, ie when companies start getting worried enough about the environment to pay out fees in an effort to do something about it.

Asking what accountants can do to save the planet is akin to deliberating on whether the tail can wag the dog. *The Greening of Accountancy: The Profession After Pledge. A report commissioned by The Chartered Association of Certified Accountants by R H Gray, School of Information Systems, University of East Anglia. Available from the CACA, 2 Woodside Place, Glasgow G3 7QR. Price £20.*

Sprouting of green consultancies

Although this year's £1m fine of Shell for polluting the River Mersey fell far short of what Exxon is facing after the Valdez disaster in Alaska, it was nevertheless higher than any penalty previously imposed by a British court and a reminder that companies owe it to their shareholders, as well as the environment, to take a closer look at their practices.

However, a Gelling survey commissioned by Coopers & Lybrand Deloitte in August showed that only 34 per cent of companies questioned had given detailed board consideration to

the impact of the environment on their business, which means that nearly half had not considered how increasing awareness of environmental matters was likely to impinge on their businesses. Only 41 per cent had a formal environmental policy. Pressure on companies to improve their environmental records and not just add a touch of cosmetic greenery to the corporate image is nevertheless growing. EC member states are currently discussing a directive that would call on all companies to undergo an environmental audit and a future Labour government would

consider similar legislation.

There has already been an explosion in the number of consultant groups offering environmental audits, environmental impact assessments and advice on how companies should manage waste disposal in anticipation of the "duty of care" provisions in the new environment protection law due to make its way on to the statute books later this year.

According to work carried out by the research group Environmental Data Services, there are now 225 green consultancies in the UK, an increase of 80 per cent over the past five years, and in the past two years there has been a near doubling of the number of full-time professional consultants working in them.

With a European consultancy market estimated to be worth £1bn a year, according to Environmental Research Limited, one of the UK's largest consultancies, an increasing number of these groups is offering services across the continent.

A recent recruit, Coopers & Lybrand Deloitte, says it will include in its annual financial audit of a company's accounts an assessment of how well the management is to actual or potential threats to the environment from its business.

The firm believes responsibility for environmental issues is too often left to junior staff and hopes its review will help potential or actual problems to be addressed at board level.

Coopers Deloitte's new service raises the old question of whether auditing firms should use their privileged access to clients at the annual financial audit, a service where margins are relatively low, as an opportunity to market other higher value services like consultancy.

The practice is banned in some other EC countries like France and Italy where audit firms are not allowed to offer tax and management consultancy from the same legal entity in order to maintain independence at the audit.

Among environmentalists there remains a degree of scepticism that services like that offered by Coopers Deloitte are little more than marketing ploys. In the same way that most institutions like Norwich Union now pay more attention to environmental issues when choosing an investment but do so without reference to specialists, Coopers Deloitte will only assign environmental professionals if the client asks for a full consultancy service.

The benefits of such a service extend beyond keeping companies out of court. Coopers Deloitte says an environmental audit can also help a company's share price. Being an environmentally aware supplier, it is argued, may well make the difference between whether a contract is won or lost.

Directory of Environmental Consultancies, published by Environmental Data Services. Tel 011-278 4745. 540.

Richard Gourlay

No easy options for managers

Simon Holberton on effects of the ERM

Britain's entry this morning into the exchange rate mechanism (ERM) of the European Monetary System was welcomed by business organisations like the Confederation of British Industry but, leaving aside macro-economic considerations, what does it mean for managers?

The first thing that can be said is that, in the short term at least, it is unlikely to make the manager's job any easier. While exchange rate stability will be welcome - although the 6 per cent variation around a central rate of Dm2.95 is hardly fixed - the relative inability of the pound to depreciate means that managers will have to pay even closer attention to costs.

The competitiveness of UK manufacturing will be the key to business success in a world where the exchange rate is not allowed to devalue. For example, Germany's unit labour costs in manufacturing are rising at 2 per cent. In Britain equivalent costs are rising at a rate closer to 7 per cent.

If this disparity in costs continues then a manufacturer which currently enjoys profit margins of 10 per cent will find them completely eroded by 1992. A company's only way to remain competitive will be to improve productivity, lower costs, or both. Keeping costs under control and reducing them is, therefore, no more a thing to strive for but something to achieve. It could be the difference between survival or extinction.

There may be, however, some initial one-off boosts to corporate profitability from ERM entry. In particular corporate treasurers may find life a little easier and profitable. A survey conducted by the CBI and Price Waterhouse in March found that companies envisaged considerable savings from not having to take out insurance to protect themselves from any untoward currency fluctuations.

The survey found that 88 per cent of the value of UK exports to European Community countries is hedged, or the value of the income protected in some way. The CBI concluded that ERM entry would mean greater exchange rate stability and therefore reduce the need for hedging. It estimated short-term savings of £100m. (This is a guess and corporate treasurers may take some time before they are prepared to deal with Continental counterparts on an unhedged basis.)

A broader capital market is now open to UK companies. Financing considerations may have to be re-evaluated. If today's sterling exchange rate is credible and thought to endure then companies could raise funds more cheaply in Germany and France where interest rates are considerably lower than the current 14 per cent and above on offer in Britain. This would help in reducing financing costs.

The CBI survey found that companies would be more interested in exporting to the continent in a situation where the pound's value was protected. It estimated that UK manufactured exports could rise by 4.3 per cent, or £2.5bn, in the first year. But this is only an expectation.

The ERM will not make life a lot easier for UK managers. The experience of France is instructive. The Mitterrand Government embraced "franc fort" in 1983, but it was only five years later that the benefits began to show through in terms of economic growth. In the short-term, deflation is bad for profits and employment although the long-term benefits of stable prices can be seen in German performance.

That said, by 1989, France had achieved German levels of inflation performance (3.5 per cent), but unemployment was 9.5 per cent and France's trade deficit some FF220bn.

| EC Inflation and Growth Rates | | | | | |
|-------------------------------|---------|---------|-------|---------|---------|
| | 1974-79 | 1980-85 | dif | 1974-79 | 1980-85 |
| ERM* | 10.3 | 6.5 | -3.8 | 3.1 | 1.9 |
| UK | 18.0 | 7.8 | -10.2 | 2.3 | -0.1 |

*Inflation (fixed output growth rate) average of all ERM countries. NOTES: All series are based on annual growth rates of real GDP and the GDP deflator. All data taken from OECD Economic Outlook (Vol. 28, Summer 1989), inflation and the ERM, discussion paper 10-89, Centre for Economic Policy.

JR West: Blue-Chip Scale & Growth Potential

Impressive business performance
Fast-growing home market
Strategic diversification

What is behind the impressive performance of JR West in the recently ended fiscal year?

Established when Japanese National Railways was privatized in 1987, JR West is active in Japan's Kansai region. This booming area boasts an economy larger than all but six countries in the world. And, as the Kansai region continues to develop along with some 500 large-scale infrastructure projects, the extensive network of JR West places it in an ideal position to grow apace. What's more, the rich cultural heritage of the region helps make it a popular destination for tourists, boosting our related activities in the travel business and in hotels and restaurants.

It all adds up to a very satisfactory performance for the fiscal year ended March 31, 1990. Driven by the sustained expansion of the Japanese economy and rising demand for travel and leisure activities, our operating revenues rose 3.4%, to ¥834.3 billion (\$5,281 million at ¥158=¥1). The profit picture is even brighter as we continue to improve productivity and leverage our considerable resources. Operating income increased a healthy 15.1%, to ¥95.1 billion (\$602 million), and net income soared 45.17%, to ¥25.8 billion (\$163 million).

Clearly, its substantial scale and rate of growth are helping make JR West a blue-chip company as it prepares to publicly list its stock.

What key factors ensure the continuing growth of JR West?

At JR West, the critical factor is its solid market position. We would be hard pressed to imagine a more attractive operating territory for our activities after privatization. Rich in history, each year literally millions of tourists make use of our array of railway travel, hotel, restaurant, and related services.

Unmatched resources also play a big part in our success. Our well-regarded Sanyo Shinkansen acts as a convenient and vital link between the Kansai and Chugoku regions of Honshu and northern Kyushu. We are also upgrading our extensive network of stations, since

these present numerous opportunities for new business. Our aim is to equip stations with a wide range of specialty and convenience stores, restaurants, and hotels as well as other business and travel-related services.

A third vital factor contributing to our success is trying to do better at what we do best. Following our corporate motto of "Heart & Action," we continually reaffirm our commitment to safe and punctual transportation services, customer orientation, and service improvements. Last fiscal year, we made progress in introducing new double-decker Shinkansen cars, refurbishing stations, and in other areas.



Shogo Koganezawa

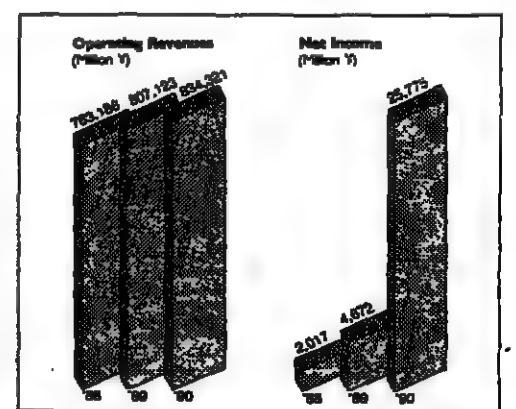
In April 1987, I joined the management of JR West and was appointed to my present post of managing director of the Finance Department and Inquiry & Audit Department in June 1990. To fulfill the responsibilities of this post, I am committed to doing my utmost to reduce long-term debt and enhance the Company's financial position. As we continue preparations for listing our stock, we plan to provide potential investors with extensive information on our activities.

Finally, what are JR West's key strategies for growth, and what is the outlook for corporate performance?

Since we have a powerful set of strategies, we have good reason for optimism about the future. A most important element to remember is that virtually all our strategies are customer oriented. That means that we are committed to improving existing services and developing new ones. In Japan's dynamic marketplace, we must do so to counter competing air, sea, and land transportation services.

For example, we are improving the Sanyo Shinkansen services, which account for some 40% of our operating revenues. Speed counts here: our Grand Hikari, currently operating at 230 km/h, will be running at more than 300 km/h by fiscal 1995. We are increasing the speeds of our other lines as well.

And, in future, we think that trains will "fly," or, thanks to superconducting magnets, at least be able to float above a guideway. So, we are hard at work as part of a cooperative organization



engaged in research and development of the magnetic levitation linear motor car. Diversification is also vital to our future growth. To become a comprehensive service enterprise, we are leveraging our resources by widening the range of shops and services available. Our travel business, hotel, restaurant, and other activities also hold much promise.

Publicly listing our stock has become one of our top priorities. We are hopeful investors will recognize that JR West has the scale and growth potential it takes to become a real blue chip.



WEST JAPAN RAILWAY COMPANY

For further information and copies of our Annual Report and other publications, please write to the Finance Department at our Head Office.
Head Office: 1-1, Oshio-cho, Kita-ku, Osaka 530 JR Group Overseas Offices: [France] 24-26, Rue de la République, F-75008 Paris [U.S.A.] 45 Rockefeller Plaza, New York, NY 10111

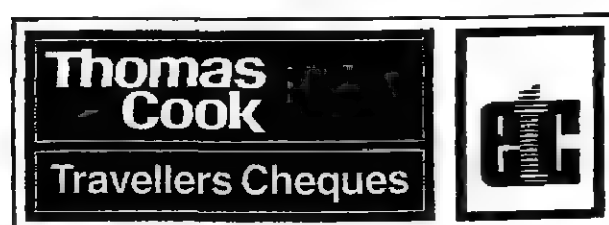
Corporate Data (As of April 1, 1990)
Capital: ¥100 billion
Number of Employees: 48,626
Route Length: 49 lines; 5,108.7km
Trains per Day: 7,261
Train-km per Day: 500,000
Number of Stations: 1,215
Number of Rolling Stock: 6,918 units

Going European wasn't a Major decision



**-we've been there
for years.**

The ECU travellers cheque from Thomas Cook.



For more information contact Sally Measures on 0733 502044.

THE WEEK AHEAD

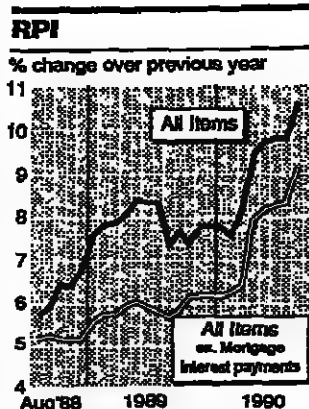
ECONOMICS

Inflation news from UK and US

ALL EYES will be on sterling and British financial markets this week following the UK government's decision to enter the exchange rate mechanism of the European Monetary System.

But such excitement will not stop the flow of regular statistics and long planned events. Indications this week of the inflationary pressures weighing on the slow growing economies of the US and Britain, and Germany's financing requirements following unification will also be of interest to financial markets.

Mr John Major, Britain's chancellor of the exchequer, will be hoping that the retail prices index for September, which is released on Friday, will mark the peak of the current inflation cycle. During the recent annual meetings of the International Monetary Fund and World Bank in Washington, Mr Major said that UK inflation was about to peak and would fall sharply after some delay.



Whether this prediction turns out to be true could depend on future events in the Gulf. But the consensus of analysts' forecasts compiled by MMS International, the financial research company, is for a 0.9 per cent increase in the retail prices index between August and September that would lift the annual inflation rate to 10.8 per cent from 10.3

per cent in August.

On Thursday, Mr Major will be again displaying his considerable political talents when he addresses the annual conference of the British Conservative Party. His speech will be closely watched for any hint of further cuts in interest rates.

Today is an important day for the German bond market. Terms will be set for the first government bond of the newly unified Germany. The issue will be the first of many needed to finance the absorption of eastern Germany into the enlarged Federal Republic.

Other statistics and events (with MMS consensus forecasts in brackets) include:

Today: US, Columbus Day holiday, some US markets closed. UK, Manufacturers' input prices for September (up 1.3 per cent, seasonally adjusted), September output prices (up 0.3 per cent).

Tomorrow: France, Revised second quarter GDP (up 0.1 per cent against first quarter, up 0.9 per cent on year).

Wednesday: Japan, Market holiday.

Thursday: US, September M1 (\$5.8bn), M2 (\$15.5bn), M3 (\$4.2bn). Money supply figures for week ended October 10. Australia, September unemployment rate (7.5 per cent), employment growth (minus 17,500).

Friday: US, September producer prices index (up 1.3 per cent), PPI ex-food and autos (up 0.4 per cent), September retail sales (up 1 per cent), sales ex-autos (up 0.4 per cent). August wholesale trade, UK, Bank of England quarterly analysis of bank advances.

During the week Germany, September wholesale prices index (up 0.9 per cent on August, up 1.4 per cent on September 1989), September producer prices (up 0.5 per cent on August, up 2.2 per cent annually), August retail sales (up 8.9 per cent annually). Japan, September trade balance, customs basis (\$6.3bn surplus).

Peter Norman

APPOINTMENTS

Moves at Northern Rock

Mr Chris Jobe has been appointed secretary of NORTHERN ROCK BUILDING SOCIETY, Newcastle upon Tyne. He has been chief solicitor since 1983. Mr David Noble becomes general manager of the information technology division, Mr Colin Taylor has been made solicitor to the Society.

Mr Michael W. Powell has been appointed executive chairman of the UMI GROUP. He is a former chairman of Foxboro Great Britain.

MALVERN UK INDEX TRUST has appointed Mr R.N. Young and Mr L.C. Menzies as directors.

Mr David W. Allan has been promoted to managing director of JOHN FOSTER & SON, Bradford. He was sales and marketing director, and

succeeds Mr Harold Harvey who has resigned.

COPYSTAT, the Nottingham-based group of information technology companies, has appointed Mr Mark Wilton as finance director. He was formerly with Touche Ross.

SENIOR ENGINEERING GROUP, Rickmansworth, has appointed Mr David Cotterill to the board with responsibility for construction services and mining equipment. He was managing director of the international division of Fenner.

Mr Patrick Phillips, a director of Barclays de Zoete Wedd Securities, has been appointed to the council of the INTERNATIONAL STOCK EXCHANGE, following the resignation of Mr Kenneth Sinclair.

C.E. HEATH GROUP has made the following appointments: Mrs T. Taher-Zadeh and Mr A.E. Aubrey as directors of C.E. Heath (Latin America); Mr N. Wetman as deputy managing director of C.E. Heath

(Aviation); and Mr L. Savill as associate director of C.E. Heath (Aviation Reinsurance Broking).

Mr Crispian Wilson has been appointed to the board of B. ELLIOTT as managing director, operations, from today. He was director, power transmission division, J.R. Fenner & Co (Holdings).

Mr Kenneth Lamcraft has been appointed managing director of the LANCASTER GROUP in the UK and Ireland. The company, which markets cosmetics and fragrances, is part of Jon A. Benckiser, Ludwigshafen. Mr Lamcraft was managing director, UK and Ireland, for Christian Dior.

SANDERSON ELECTRONICS, Sheffield, has appointed Mr Paul Morley, president of Paul Morley & Co Inc, Wall Street stockbroker, to the board of 55% owned General Automation Inc. Sanderson Computers, a principal trading company, has appointed Mr Philip Noden as managing director. He was technical director and takes over from Mr Paul Thompson who continues as chairman.

Mr Peter Carroll becomes technical director, Mr Graham Dwyer is made commercial systems director, and Mr David O'Byrne becomes public sector systems director.



GROSVENOR LAING URBAN ENTERPRISE, a joint venture between Grosvenor Estate and John Laing, has promoted Mr Philip Wilbourn (pictured) from development manager to development director. The company was formed to develop managed workspaces for small businesses in inner city areas.

UK COMPANIES

THE DOWNTURN in demand for business computers is expected to have cut heavily into margins at Amstrad, the UK electronics company due to report full year results on Wednesday.

Analysts are expecting pre-tax profits of £40m-£45m, compared with £76.6m last year. Turnover should be static at around £630m-£650m, with disappointments from the profes-

sional computer range and most other products, except for recent promising satellite dish sales.

There are still some structural problems, but the company could be past the worst, with anticipated write-offs of over £20m to cover its investment in US-based Micron Technology.

From debt of £150m in 1989, Amstrad should have net cash,

and inventories halved from last year's £350m.

Laura Ashley, the clothing and home furnishings group which has just announced a cut in its manufacturing division involving the loss of 1,000 jobs, is to announce its interim results on Tuesday.

These are expected to show how tough the retailing market has been for Laura Ashley although the company may

just break even at the interim stage.

The company's followers are looking for a more satisfactory outcome for the full year and around £5m in pre-tax profits.

Analysts will also be keen to know how Laura Ashley's recent agreement with Jussco, the Japanese retailing group, will help to strengthen its position.

UK COMPANIES

TODAY

COMPANY MEETINGS: Adscens, Howfield Manor, Chardham Hatch, Canterbury, Kent, 11.45

Fleming Enterprise Inv. Tst., 25 Copthall Avenue, E.C., 12.00

Mid Wynd Int. Inv. Tst., 10 Glenfiddis Street, Edinburgh, 11.00

Palmerston Hldgs., Covent Garden Exhibition Centre, Great Queen Street, W.C., 10.30

BOARD MEETINGS: Final: Inter Europe Tech. Servs. Pochins

Initiations: Abrust New Euro. Inv. Tst. Aviva Polarisum

British Dredging Chepstow Racecourse Havelock Europa

Hetical Bar

Hunting ISA Int. Lyles (S.)

North British Canadian Inv. Touchdown

TOMORROW

COMPANY MEETINGS: Cabra Estates, Brown's Hotel, Dover Street, W., 10.30

Flagstone Hldgs., The Britannia Inter-Continental Hotel, Grosvenor Square, W., 11.30

Fleming O'Leary Inv. Tst., 25 Copthall Avenue, E.C., 12.00

London Securities, Britannia Inter-Continental Hotel, Grosvenor Square, W., 8.30

Property Co. of London, Collingtree Park Golf Club, 90 Windingbrook Lane, S.W., 12.00

Northampton, 11.00

Wentworth Int., 131 Finsbury Pavement, E.C., 11.00

BOARD MEETINGS: Final: Gramphorn

Savage Interiors: Alexandra Workwear SLP

HTV Hi-Tec Sports

London & Manchester MMW Computers

Porth OS Hldgs. S & U Stores

Seaford Walker Greenbank

WEDNESDAY

OCTOBER 18

COMPANY MEETINGS: TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Wholesale Fittings, Institute of Electrical Engineers, Savoy Place, W.C., 10.30

BOARD MEETINGS: Final: Gramphorn

Savage Interiors: Alexandra Workwear SLP

HTV Hi-Tec Sports

London & Manchester MMW Computers

Porth OS Hldgs. S & U Stores

Seaford Walker Greenbank

WEDNESDAY

OCTOBER 18

COMPANY MEETINGS: TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

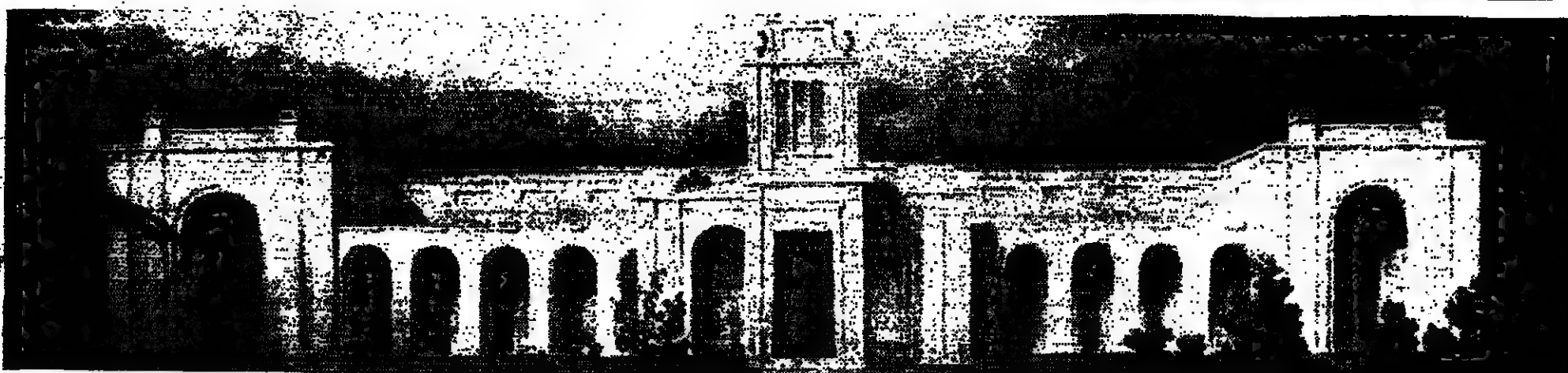
Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

Initiations: Microfilm Reprographics

TR Far East Income Tst. Town Centre Securities

ARTS



Gandy's watercolour impression of Soane's proposed east front of Dulwich Picture Gallery which the gallery is about to purchase

The difficulties of meeting Soane's challenge

Colin Amery is in no doubt that leading international architects would rise to the occasion

I have spent several hours this week in a damp room in a suburban garden. The organisers of the Country Life - Dulwich Art Gallery architectural competition put on show in the grounds of the gallery the entire spread of 377 entries. At weekends this display has aroused great public interest, although it has to be said that in the week only a few visitors join the swarms of "daddy-long-legs" that seem to be drawn to the curving drawings in the two large tents.

Competitions always cause controversy and disappointment and the Dulwich one is no exception. Since I wrote about the results a little while ago, letters to this newspaper and in other places have expressed strong feelings about the role of critics and have attempted to judge critical reactions in the light of some imaginary "battle of the styles". I, and other writers, have been accused of "lofty disapproval" of being "self-appointed keepers of the Soane faith", of not encouraging the young and "yet to come to terms with modernism". All this debate and interest can only be seen as a Good Thing.

But the polarising of the debate according to an entirely imaginary "Classical versus Modern" agenda,

completely misses the main point. Why are the winning schemes at the Dulwich competition so very disappointing? And why would it be a sad and missed opportunity if any of them were actually built? To make a considered and sensible judgment on these points, and indeed to test one's own critical abilities in exactly the same way as the judges had to do, I felt it essential both to look at all the entries and to talk further to the gallery itself.

First of all, I had another good look at the site and pondered the particular strangeness of Sir John Soane's 1811 design for the Dulwich Gallery. We know that Soane saw his Dulwich commission as a unique chance to commemorate his friend Sir Francis Bourgeois with a fine mausoleum and a gallery for his bequest. We also now know that Soane was obsessed by "the furniture of death" and that it was the combination of a mausoleum and an art gallery that particularly attracted him. It was one of Soane's most personal works. He did not charge any fees for the design and when there seemed to be some financial crisis was willing to pay for the completion of the building himself.

Soane rejoiced in the opportunity to build a monument in a rural and pic-

turesque setting. He also celebrated the opportunity of combining his ideas and feelings about art, life and death in one building. It is the sublime realisation of Romantic ideas about death and its transcendental quality. Soane wanted us, the visitor, to realise the presence of death alongside the brilliantly lit bright spaces and their display of mankind's finest creations - works of art. The gallery and mausoleum symbolises the complete infinite and finite circle of life. A visit to Dulwich should be an almost religious experience.

This is the background against which competitors were asked to add the more mundane requirements of a brief that wants to turn Dulwich into an ordinary modern gallery with public lavatories, cafe, the inevitable shop and an all-purpose room with the strangely combined function of darkened lecture theatre and well-lit exhibition hall. It is a difficult brief and the organisers were wise enough to say that they were just looking for ideas and would feel no commitment to build anything.

It is because Soane's ideas were so profound for Dulwich that the Gallery director, Giles Waterfield, should have invited some of the best architects in the world (many of whom

claim direct inspiration from Soane) to submit ideas. Waterfield claims that this would have been too expensive. I claim it would have been a better use of his sponsor's money and, after all, it is normal to ask architects to pay a premium to enter a competition and there is no doubt that many leading architects would willingly have paid to have the chance to build next to Soane's masterpiece. And Country Life would have had the honour not of promoting an indifferent free-for-all but of sponsoring the work of the world's best architects.

Of the 377 schemes on view there are probably only 50 that reach a good enough standard to be shortlisted. As this was an ideas competition it would have been fairer of the judges to have made a more catholic selection for commendation and included some of the classical schemes - several of which were very carefully planned, and some were ingenious. I can see how hard it was to choose a winner because the general standard was so low. Many of the schemes were simply too dominant and overbearing, which must have driven the judges down the route of ultra-caution when selecting the almost invisible winner. And yet they singled out as their third prize winner a very powerful

pavilion that looked as though it had been designed for the Festival of Britain.

Because of all the critical failure the Gallery and Country Life feel more determined than ever, naturally enough, to back their three winners. I realise now that the winner (Zetec, O'Neill and Grashy) was chosen because it tucks out of site the spaces the gallery needs and could probably be built without upsetting too many of the neighbours in this exceptionally sensitive site. It shows that the Gallery was so confused about what it wants that it has settled for almost anything. It wanted the publicity and razzamatazz of an architectural competition (it got that) but has neither the funds nor the planning confidence to promote an internationally significant building.

I understand that the SH Gallery in central London is contemplating a show of some of the Dulwich entries. Perhaps it would be wise to continue the debate and show the winners alongside some newly invited entries from Rafael Moneo, Arata Isozaki, Eric Parry, John Outram, and James Stirling to name but five. Soane's Dulwich Picture Gallery is much too important to be saddled with the result of an inept competition.

The Old Law

STUDIO, LYRIC HAMMERSMITH

There is an excellent production of *The Old Law* by Thomas Middleton and William Rowley at the Lyric Studio in Hammersmith, which I am glad to report had an almost full house on Saturday evening.

You may be forgiven for not knowing much about the play. According to a programme note, it has not been performed on stage for more than 300 years, and it is not easy to find a copy of the text.

Briefly, it can be described as Jacobean satire or as a kind of comic *King Lear*, for it is about the overthrow of old age and the rise of the younger generation, although it has a happy ending where nearly all is forgiven.

Middleton is best known for his tragedies, *The Changeling*, on which he collaborated with Rowley, and *Women Beware Women*. Rowley is a great collaborator. He had his hand in about 50 plays of the period. That has sometimes led to his being called a hack. I prefer the term "professional".

It is also sometimes said that Shakespeare was so far above his contemporaries that most of the other plays of the period are of mainly academic interest. My own view is that if both helpful and enjoyable to take Shakespeare and his contemporaries together because they Hammersmith each other, and, after all, they use the same conventions.

Certainly that is the conclusion from *The Old Law*. The allusions to *King Lear* are unmistakable. There are also references to *Dr Faustus* and

the idea of time running out. Indeed the whole canon of Elizabethan and Jacobean drama is there in one form or another, not least the contempt for the equivocations of the law.

The Hammersmith production is by the Commonweal Theatre Company and directed by Tony Hegarty. As a company, it has a multitude of talent, most notably Max Hefler playing Creon and Iona Kennedy as Egeus.

The direction is also full of ideas. A traditional fencing scene is played very effectively without weapons, and a drinking/sonnet scene without tankards. It works. Nearly all the minor parts come off, especially the sycophantic courtiers.

The one reservation is that the production would gain from being out by about 20 minutes, otherwise it is a wholly rewarding evening.

The future of the Lyric Hammersmith, incidentally, is in some jeopardy as a result of the combination of the poll tax, local authority cuts and the local authority's policy of the Arts Council.

I do not think that all these things ought to be saved merely because they are theatres. The Lyric, however, like the Young Vic which is also in difficulties, is an exception. Apart from its marvellous productions, it has some of the pleasantest amenities you will find in a theatre. It should be supported.

The Old Law runs until October 27.

Malcolm Rutherford

The Devil's Virtuoso

REDGRAVE THEATRE, FARNHAM

The good people of Farnham, friendly, prosperous and theatre loving, are led a merry dance by Ian Taylor in his new play, *The Devil's Virtuoso*, which re-tells the life of that pop superstar of the early 19th century, Paganini. So other worldly was Paganini's violin playing that he was reckoned to have made a pact with the Devil.

This becomes the alpha and omega of Taylor's play and enables director Graham Watkins to set it in "An Illusionist's Theatre in Limbo".

The concert is taken to the limit and poor Christopher Ashley as Paganini is forced to perform really dire magic tricks to satisfy the production's meddling with the mystic.

There was a genuine mys-

tery - Paganini was refused a Christian burial for five years - but there are many more fascinating aspects to his character to explore than the story that, encouraged by his manager, he was a Satanist. The fact that he never touched a violin except when he was performing is much more amusing.

Still, take it all as a romp and it is quite jolly, thanks mainly to the music which ranges from some of Paganini's devilishly intricate compositions to folk songs of his native Genoa.

The chief trick is the ability of Ashley to convince the audience that he is a violin virtuoso: by clever direction, and help from the wings, he carries off a musical coup. His por-

trayal of Paganini as a louché cockney raises a few hackles but has some historical justification.

Six actors assume countless roles. Taylor seems fond of black underwear and Joe Dickson and Karen-Jane Tomlinson are for ever slipping into something slinky. Taylor is also good on Paganini's youth as a prodigy, but seems to lose interest after he becomes an international celebrity. There is nothing about his contemporaries (Schubert commented on his playing: "I heard an angel sing"); nothing about his spectacular bankruptcy; nothing about his illness, which transformed his appearance for the worse, making him physically devilish looking.

For the finale there is a

theme that could have been exploited more energetically - Ashley and the cast become modern rock stars, bashing out Paganini's tunes.

Of course the devilry allows some good tableaux, especially the opening scene where Paganini's son is discovered arguing with the Church over a rotting corpse, and throughout the staging is an imaginative box of tricks for a regional theatre. But, in what is basically a safe run through of a famous life, it would have been better to show Paganini whole rather than Paganini coloured. Julian Forester, Philip Dupuy, and Michael G. Jones are assorted priests, lawyers, and other crooks.

Antony Thornecroft

Turandot

COVENT GARDEN

As the third cast for this revival of *Turandot* took the stage, it is remarkable to consider how unflinching satisfaction this production has been over the past six years. Every time it is put on, the opera seems just as magical and involving, as cruelly disturbing below the surface, as it did the time before, no matter who is singing.

With so many revivals, it has served to welcome a long line of visiting stars. Singers such as Dimitrova and Marton, for example, have used the title role to show off voices of remarkable amplitude.

To follow them, let alone Gwyneth Jones, the production is at a high level of expectancy. Savova is a live and always interesting Turandot.

By pairing her with the tenor Nicola Martinucci, the performance gave us a leading couple of opposite virtues.

Martinucci is predictable above all, with a fine, Italianate voice that never lets him down, deserving of the noisy ovation that he won; but he makes an uninteresting stage personality, a Calaf without ardour or heroism, or even stock Italian-tenor histrionics.

Nor did one's heart go out to the Lili of Lucia Mazarria-Scandalo, a good, but not particularly convincing, though she sang.

Nevertheless, the opera worked and powerfully so, partly no doubt thanks to the immense climaxes built up by Cotti Davis in the pit. This is a production that you can see again and again without it dwindling in impact at all. While the Royal Opera has such a *Turandot* to offer, it is difficult to complain when they put it before the public so often.

Richard Fairman

Monteverdi Choir

BARBICAN HALL

With one bound John Eliot Gardiner has leap-frogged his rivals. While the other conductors involved in the period instrument movement are moving steadily through the early romantic, Eliot Gardiner has audaciously jumped ahead to the German *Requiem* of Brahms, that most unlikely of works to be heard in an "authentic" performance. Next month the Monteverdi Choir will follow up with the unaccompanied chorale.

In music as comparatively recent as this it is difficult to know how great a difference to expect, if it is performed on instruments of the period. In Thursday's concert the most noticeable effects were those of sear strings and hard-struck timpani, now commonplace in performances of baroque and classical music.

Were the English Baroque Soloists using their usual instruments, or later ones to suit the period (1898)? On that point the programme did not furnish any details. A brief introduction by Eliot Gardiner did, however, express an intention to do away with the German *Requiem*'s "prevailing dinginess of texture" and in that he can claim total success. There is simply no comparison in hearing music such as this or the *Schicksalslied* performed by a large, wheezy, amateur chorus and the super-professional Monteverdi Choir with their razor-sharp attack and projection sure as a bullet.

Movement after movement unveiled choral marvels. This was not Eliot Gardiner hurrying forth at headlong speed, as previously when he and his singers tackled Beethoven's *Missa Solemnis*; but a measured and serious reading, outstanding above all for the iron clamp in which the conductor seems to grip all his performers. Eliot Gardiner presided here with dictatorial control over the exact weight, colour and timing of every syllable.

In the forthcoming recording the performance may prove too studied for repeated listening. Against that the sheer technical perfection will be just as breathtaking and there are highly recommendable soloists in the beautiful soprano of Charlotte Margono Turandot in the baritone Rodney Gilfry, who sang with easy dignity in his solos. In sum, a gripping performance: not a verdict that can often have been passed on this work.

Richard Fairman

OBITUARY

Jill Bennett

Jill Bennett, who died last week aged 58, was born on Christmas Eve 1931. She had wealthy parents and it may have been this that lent, both to her playing and her life in general, a feeling that most of what happened to her was contrived by herself. She had barely left school in Stratford-upon-Avon when she began to play small parts for the Shakespeare Memorial Company. At 18, she fell in love with its 60-year-old director, Sir Gregory Tyrer, and in spite of disapproval stayed so until his death four years later.

The Shakespeare company was followed by Olivier's company at the St. James's, with whom she gave Anne in *Coriolanus*, and later in both *Antony and Cleopatra* and *Caesar and Cleopatra*. Thence she followed the prescribed route for a successful young actress, to Hollywood, though her looks were plainer rather than beautiful. She starred in some unmemorable films and returned to England, able now to take important parts. She was Masha in John Clements's *Sengul* in 1956, and joined the Oxford Playhouse company under Frank Hauser. In 1962 she married Willis Hall, in whose work she had appeared at the Royal Court.

At the Court, she played the Russian Countess in John Osborne's *A Patriot for Me*, a part she adorned beyond its proper worth, and her work centred around that house for some time. The marriage with Hall lasted only until 1966, and in 1968 she married Osborne, who created Pamela for her in *Time Present* - virtually a

B.A. Young

BUSINESS TRAVEL

The Financial Times proposes to publish this survey on:

12 NOVEMBER 1990

For a full editorial synopsis and advertisement details, please contact:

TIM KINGHAM
on 071-873 3606

or write to him at:

Number One
Southwark Bridge
London
SE1 9HL

ARTS GUIDE

October 8-11

MUSIC

London

Dmitri Hvorostovsky (baritone) with Mikhail Arcadiyev (piano). Monteverdi, Pergolesi, Caccini, Stradella, Bellini. Royal Festival Hall (Mon) 071 928 3101; on 071 928 8800. Royal Philharmonic Orchestra conducted by Sir Yehudi Menuhin, with Julian Lloyd Webber (cello), soloists and choir. Gershwin, Elgar, Lloyd Webber. Royal Festival Hall (Wed) 071 928 8800.

Paris

Orchestre Colonne conducted by Klaus Weisse, Trio Henry, Beethoven (Mon), Salle Pleyel (01 58 88 78). Nicolas Gedda recital (Mon). Salle Gaveau (01 58 88 007). Quatuor Sire Naxos (Tue). Salle Gaveau (01 58 88 007). Orchestre de Paris conducted by Semyon Bychkov, with Anne-Sophie Mutter (violin), Kodaly, Mahler, Stravinsky (Wed, Thur) Salle Pleyel (01 58 88 78).

Amsterdam

Netherlands Philharmonic with Theodor Geras (violin), James Loughran conducting. Dvorak, Vaughan Williams, Elgar (Fri). Concertgebouw (218 345). Musica Antiqua Köln under Reinhard Goebel. Telemann, Bach, (Mon). Concertgebouw (218 345). Netherlands Philharmonic with Maxim Vengerov (violin), James Loughran conducting. Berlioz, Tchaikovsky, Shostakovich (Thur). Concertgebouw (218 345).

Utrecht

André Gavrilov (piano). Mozart, Beethoven (Tue). Vredenburg (31 45 44).

Brussels

Philippe Hirschhorn (violin) and David Gohin (piano) in a programme of Franck, Prokofiev and Schubert. Palais des Beaux-Arts (Mon). Paul Domschreck Consort in a programme of Bach, Couperin, Matthes, Philidor, Rameau, Telemann. Miroslav Royzman d'Art et d'Histoire (Wed). National Symphony Orchestra conducted by Marius Rostropovich performing Barber, Shostakovich and Tchaikovsky. Palais des Beaux-Arts (Thur).

Antwerp

Schmidt (baritone) accompanied by Roger Vignoles (piano) performs Brahms's Die Schöne Magelone (Wed). De Singel (03 248 38 00).

Gent

English Chamber Orchestra conducted by Jeffrey Taylor with Misha Dichter (piano) performing Beethoven (Tues) (031 25 77 80).

Frankfurt

Russian Radio Orchestra and singers Lidia Schernikh, Alexander Nenadovsky, conducted by Vladimir Fedoseyev with an all-Tchaikovsky programme (Mon, Thur). Alte Oper. Russian State Orchestra, and Andrei Korakov (violin), conducted by Yevgeny Svetlanov in an all-Tchaikovsky programme (Wed). Alte Oper.

Berlin

Berlin Opera Orchestra conducted by Giuseppe Sinopoli with Diana Upshaw (soprano), G. Shkhar (violin), Nono, Mendelssohn and Abler (Mon). Schauspielhaus.

New York

Juliard String Quartet. Schubert, Gershwin (Mon). Juillard Theater, Lincoln Center. Free (874 8770). Czech Philharmonic conducted by Jiri Belohlavek with Andrea Lucchesini (piano) play Martinu, Chopin, Stravinsky (Tue). Carnegie Hall (247 7400). New York Chamber Symphony conducted by Gerard Schwarz with Misha Dichter (piano) play Diamond, Gershwin, Beethoven (Tue). Knickerbocker Hall (98 1100).

Washington

Daniel Barenboim piano recital. Beethoven (Mon). Kennedy Hall, Kennedy Center (497 4600). Czech Philharmonic conducted by Jiri Belohlavek with Andrea Lucchesini (piano). Martinu, Chopin, Stravinsky (Wed). Kennedy Center (497 4600).

Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti play Bartok, Debussy, Shostakovich (Thur). Orchestra Hall (435 3322).

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 12186 Fax: 071-407 5700

Monday October 8 1990

Not nearly good enough

THE British government's adherence to the Exchange Rate Mechanism of the European Monetary System indicates that a general election may be held in the summer or autumn of 1991. There is likely to be a further fall in interest rates and a consequent window of political opportunity during the next six to 12 months. This is a reversal of the outlook a week ago, when a strong Labour lead in the opinion polls suggested that the prime minister might have been tempted to wait until the final possible moment in June 1992.

The annual conference of the Conservative party which opens in Bournemouth tomorrow may therefore be the last opportunity for a concerted demonstration that Thatcherism, a success in the early 1980s, has something to offer in the 1990s. Some new thinking is needed.

This certainly applies to the government's present attitude to the European Community. Adherence to the ERM, welcome though it may be, has been grudgingly accepted five years after it was accepted by the former chancellor of the exchequer, Mr Nigel Lawson. The nationalistic phrases accompanying the prime minister's statement on the ERM decision last Friday suggest that the government is likely to prove as unco-operative over further developments of European monetary and political union as it has over every step taken or proposed so far.

Measured pace

Plans to move towards a single currency and a European central bank ought not to be rushed, but the arguments for a measured pace, which will no doubt be put forward by Mrs Thatcher at the EC intergovernmental conference in December, would carry greater weight if the other participants thought that Britain believed in the proposed destination. A few Conservative ministers do, but the sterile debate over sovereignty continues to constrain the government. There are signs that the Labour party is sensing this and preparing to seize the opportunity to proclaim a yet more wholehearted Europeanism.

The verdict "not good enough" also applies to a col-

lection of domestic policies, in which the common thread appears to be adherence to the doctrinal purity that seemed to be in the ascendancy after Mrs Thatcher's third election victory in 1987.

Most of the government's privatisations have been a success, but the so far botched privatisation of electricity will not quickly create greater competitiveness. The sensible development of a core curriculum for schools has been accompanied by structural reforms designed to wrest control from local authorities, but these policies have not been supported by the public expenditure without which teacher morale and educational quality will remain low. Training to reduce unemployment is understood by the government; training for people in work awaits a convincing programme.

Driving force

The indefensible poll tax had the underlying purpose of weakening local authorities; its replacement should follow the structure of both local government and the method of financing it. The Tories are considering an extension of the right to buy publicly rented housing; they still shrink from abolishing the council house mortgage interest, which distorts the market for credit.

The driving force behind everything the government has done since 1979 has been Mrs Thatcher. This has been a great value, particularly in providing the resolve necessary to curb excessive trade union power, but also in propagating a sense of fiscal prudence within a number of public institutions which in past decades appeared never to have heard of it.

The question now arises whether a party that is so heavily influenced by the instincts of one powerful individual can make the necessary adjustments of direction after a dozen years in power. Unless the Conservatives can demonstrate that they, and their leader, are able to shake off the preconceptions of the 1980s and produce practical policies for developing the competitive strength Britain needs in the 1990s, they will not deserve to win a fourth term.

Still stalling on farm reform

THE ONE positive aspect to the new European Community farm reform proposals is that they exist. That the EC has now spelled out specific plans for reducing the \$350bn annual cost of world farm support is a significant step for a trading power which is normally resolute in its determination to lavish vast sums of money on its 10m farmers.

This said, it would be an illusion to believe that the new plan goes far enough to break the log-jam over agriculture in the Uruguay Round of multilateral trade negotiations. The reason lies not so much in the 30 per cent level of cuts suggested by Brussels, although the US is due to propose a higher figure, it is more due to the continuing European refusal to contemplate the specific policy changes demanded by the US.

The plan, which goes before farm and trade ministers in Luxembourg this week, retains the controversial "rebalancing" proposal whereby the Community would be entitled to compensate for cuts in domestic support with increased border protection for feedgrain substitutes, such as oilseeds. It would allow Brussels to protect its farmers against commodity price volatility caused by exchange rate movements. And it still contains no firm commitment to curb export subsidies.

Fierce resistance

EC officials argue that the Bush Administration would face severe difficulty in persuading Congress to accept cuts of even 30 per cent. US dairy farmers and sugar producers would fiercely resist such cuts. Reform would, however, have a much better chance of success if these lobbies could be neutralised by bringing on board the powerful grain and oilseed sectors.

This is why what happens to rebalancing and export subsidies is so important to the US. Its grain exporters badly want a ceiling on EC export subsidies which would help make competition in world markets fairer. Its soybean growers will never accept increased EC protection, which would lock them out of a lucrative export market.

Concessions in these areas would help ensure that real discipline is applied to the Common Agriculture Policy in future. Cash limits on export subsidies would have to be either stored or destroyed, at tremendous cost. With no rebalancing, any attempt to hold up the internal price of grain would lead to large imports of feedgrain substitutes, adding further to European over-supply.

Growing demands

The Community should welcome such discipline, given the existing strains in the CAP and growing calls on its budget for regional and structural aid. Agreement to curb export subsidies should also open the door to compensating, and desirable limits to US deficiency payments.

Unfortunately, the stranglehold exerted by Europe's farm lobbies over Mr Ray MacSharry, Farm Commissioner, means that it will be difficult to modify the proposal unless business groups which have hitherto neglected the role of agriculture in the Round step in to insist on more concessions.

With so much at stake and so little time left, the prospect of a continuing farm impasse is nothing short of alarming.

A larger gesture is called for now, rather than at the last minute in December. What are often derided as concessions in trade talks are indeed, as the OECD declared last week, steps forward on the road to world prosperity. Yet the EC is still approaching farm reform in the absurd spirit of trying to limit reform to the minimum.

The real problem in EC farming is a social one: the plight of smaller farmers whose incomes have fallen despite the best efforts of the CAP. Concentrating assistance on them, instead of the small minority of efficient farmers who receive the bulk of the aid, might render the whole exercise less costly. Even if this makes little economic sense, it would at least become clear what the issue was all about. Europe's voters could then decide whether they really wanted to preserve what is, in effect, a medieval cottage industry.

The political reasons for the chancellor of the exchequer's decision to put sterling into the exchange rate mechanism of the European Monetary System last Friday are transparent: about two-thirds of UK housing is in owner-occupation, while just 20 per cent of the labour force is employed in manufacturing and at most 40 per cent in sectors subject to some degree of international competition. Any policy that promises both lower interest rates and inflation, combined with a squeeze on jobs and profits in less than half of the economy, looks like the answer to a hard pressed government's prayers.

None the less, over the long haul - presuming that is, that the British people will abide the long haul - the destination is the same as that of domestic monetarism. If the exchange rate is fixed, inflation must converge upon that in the anchor country. The Bundesbank's target inflation rate for Germany is about 2 per cent, which is a little below the country's average over the 1980s. It is possible that German unification will raise this average more than merely temporarily. It would be unwise to assume it.

The UK must now adopt the policy described by the French as "competitive disinflation". Over the 1990s unit

labour costs in German manufacturing rose at 1 1/2 per cent a year. In the UK productivity growth in manufacturing seems to have been some 4 1/2 per cent a year. If that high rate could be sustained (itself unlikely) then wage costs per hour in British manufacturing must ultimately rise by not more than 6 per cent a year, if the exchange rate target is to be combined with steady growth. Competitive disinflation would demand wage inflation of 4 1/2 per cent a year, less than half of that rate.

When the countryman was asked how to get to Dublin, he replied that the traveller would have done better not to start from where he was. The UK, too, would have done better to start somewhere else. But it has no choice. The period (and the pain) of adjustment must now be as long (and as great) as is required to get from here to there, with "there" defined as steady growth at the UK's underlying rate of 2.5-3 per cent a year, combined with wage inflation running at, or below, 5 per cent a year.

"There" can also be defined more broadly. One central difference between Germany and the UK is the way in which a liberalised UK financial system has generated credit growth during the 1980s. Between 1985 and July 1989 the respective increases in broad money - mainly cash and bank and building society deposits - in Germany and the UK were 37 per cent and 126 per cent, in spite of higher interest rates in the UK. Such differential growth in relative money supplies would normally

Martin Wolf considers the route the UK will take towards a more Germanic economy

A long and painful haul lies ahead

prerogative fixed exchange rates.

Many of the differences - including the propensity to borrow - are the result of the UK's long experience of inflation: to put as much as (or, not infrequently, more than) one can afford in one's house is mere prudence for the Briton, but it is profligacy to the German; in the UK pay bargaining is usually annual, while in Germany wage bargaining occurs less frequently, and in the UK almost all unit trusts invest in equities, while in Germany interest-paying instruments are far more popular.

Most of these differences will diminish, or even disappear, if ERM membership is the anchor of them - notably the role of housing and pay bargaining - also make that success more difficult to achieve. The difficulties created by the marks of inflation upon the UK economy are both a part of the problem and the reason for choosing a link to the Bundesbank as the solution.

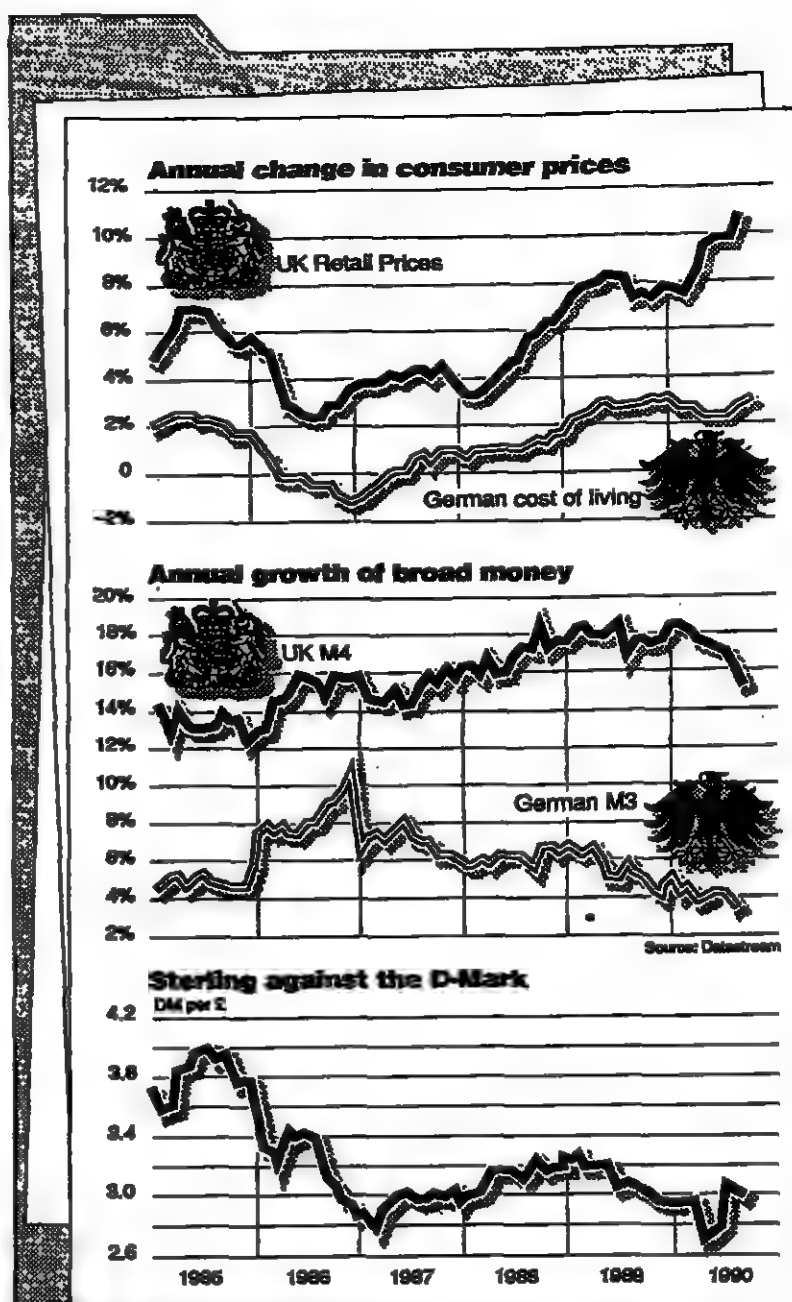
It is no surprise, therefore, that the chancellor redefined the conditions for entry, to focus on prospective inflation, once convinced of the need to make early ERM entry the basis of his economic policy. Past inflation was certainly no justification, with headline inflation at 10.6 per cent, inflation excluding housing at 7.6 per cent and unit costs in the economy rising at well over 8 per cent a year, even on a cyclically-adjusted basis.

Past inflation was never relevant. The chancellor was right to ignore it. He was also right to anticipate a sharp slowdown in the economy. All measures of monetary growth have turned down. The personal savings rate has risen from a trough of 4.9 per cent in the third quarter of 1988 back to 7.7 per cent in the second quarter of 1989, while the financial deficit of companies was more than £18bn in the first half of 1990 alone.

The economist's lag is the politician's nightmare. The chancellor has evidently decided that he was compelled to lower interest rates, with ERM entry as cover. While this move is unlikely to ward off a recession altogether, it may help to postpone the worst of it until after an election. It will also change its sectoral impact. But that there will be either a recession or a sustained period of slow growth seems unavoidable. Otherwise, the necessary disinflation will not occur.

Calculations of the exchange rate that will equate the prices of traded goods and services between the two economies (the purchasing power parity exchange rate) generally give figures of well over DM3 to the pound. But the real exchange rate is at least as much an internal price, probably best defined for an economy like the UK's, as the (efficiency-adjusted) cost of labour in relation to the prices of traded goods and services. The symptoms of overvaluation would then be relatively low profitability in those industries that produce tradeable goods and services, combined with a large current account deficit, even though labour is not fully employed.

From the picture of the UK today, it looks as though the real exchange rate may already be overvalued in this sense. Whether it is or not, it



must now appreciate progressively within the ERM, unless wage bargainers experience a Damascus conversion. At present, the real appreciation would be about 4 per cent a year, this being the difference between the cyclically-adjusted rate of rise in unit costs in manufacturing in the domestic currencies of Germany and the UK. At this rate the gross profits of British manufacturing industry could be halved in about four years. One must hope that those employed in it realise that they face a doomsday machine.

This squeeze is the mechanical part of the adjustment. What happens in the economy as a whole, however, depends on external shocks (like the price of oil) and expectations. The likelihood is that reactions by investors, especially those engaged in short

term trading in foreign exchange and interest-bearing securities, will be different from - and faster than - those of people engaged in business (including here trade unions) and households.

At worst, post-entry expectations might consist of little confidence in long term exchange rate stability, coupled with quite a high degree of confidence in short term stability. The UK authorities may then feel forced (or, worse, delighted) to lower short term interest rates towards those in the currencies to which sterling is now seen to be firmly linked.

The first is that interest rates are now not as high as they appear, when adjusted for taxes and inflation. After tax, a 40 per cent tax payer will receive a real return of not much

above zero, given the underlying rise in the retail price index. If interest rates fall further, that real return might become negative. Yet at the moment, holdings of broad money are equal in value to more than 80 per cent of nominal gross domestic product, up from only 60 per cent five years ago. There is a risk that this liquidity glacier will thaw in the warmth of lower interest rates and melt into a river of increased spending.

The second danger is that of renewed borrowing. Personal finance in the UK is dominated by borrowing against the security of owner-occupied housing at short term rates of interest. Such borrowing, for new purchases and for equity withdrawal, has recently been constrained by the burden imposed by mortgage rates of around 15 per cent. Mortgage rates of, say, 11-12 per cent might prove quite another matter.

With lower interest rates, parts of business will find their prospects transformed. Wage bargainers may find it easier to extort higher wages from companies which do not face any significant international competition. Companies producing tradeable goods and services will be subject to competition in the labour market from those domestically oriented businesses that can afford higher wages and may feel obliged to yield to the pressure.

The irresistible force of an unbalanced expansion would then meet a (supposedly) immovable object, in the form of the fixed exchange rate. What might happen then? In the open sectors of the economy would lead to progressively higher unemployment and, ultimately, lower wage inflation. In addition, the growth in demand would be reduced by a renewed increase in a current account; by reduced demand from those formerly employed in the open sectors of the economy; and, last but not least, by interest rate shocks. For the progress of demand expansion and external account deterioration would not be watched with insouciance. From time to time, investors would demand higher rates of interest to compensate for renewed risk of depreciation.

In short, a fixed exchange rate would, indeed, force the rate of inflation down. But the price could be a violent stop-go cycle. This "go-stop-go" approach to disinflation is a nightmare. No sensible government should tolerate it, however electorally convenient the initial "go" phase may seem.

The solutions are, above all, to resist excessive downward pressure on interest rates and to withdraw the incentives for borrowing and lending, notably those affecting the housing market. The less desirable alternatives - to which the government may find itself ultimately reduced - would be to suppress the symptoms of divergent expectations, the path chosen by France, which used wage, exchange and credit controls during its transitional period or to consider offsetting action, most obviously in fiscal policy.

There is the light of a more Germanic economy at the end of the tunnel. But the passage will be long. In the five years from 1983 and 1987 the French economy grew on average at 1.6 per cent a year, with rising unemployment throughout. That is likely to be the fate in store for the UK, if the government were unwise enough to embrace rapid further reduction in rates of interest over the next few months, it might put another, near term light into the tunnel, that of an election victory. But, for the economy, this light would merely signal ultimate collision with the locomotive of a still more brutal "stop" than the one now being experienced. The government must be more responsible than to attempt short term exploitation of what should, instead, be a long term policy.

Champagne at Bank

Officials at the Bank of England and Treasury are justly proud at how they managed to keep news of Britain's entry into the EMS exchange rate mechanism a secret last Friday until the witching hour of four o'clock in the afternoon.

At that precise moment the wonders of electronic news management swung into play. Identical details were released simultaneously onto City screens via Reuters, AP-Dow Jones, Knight Ridder, and the Stock Exchange's Telex service. "To coincide with the chiming of Big Ben", an official explained later.

But this highly-charged atmosphere had some strange effects in the Bank of England press office. Penelope Thwa, which apparently had burst open entirely of its own accord. The need for strict secrecy on ERM entry has been occupying great minds at 10 Downing Street and the Treasury for months. At one point the authorities in Spain were consulted - in great secrecy, needless to say.

How had Madrid managed to avoid leaks? "Simple" the British were told. "The prime minister and the finance minister did not even tell anyone else in the cabinet when they joined last year."

Dry run?

Everyone was caught by the two-headed projectile of base rate cut and ERM entry that John Major delivered with such impeccable political timing last Friday. But it did not come off out of the blue. Although the markets rock-

OBSERVER

eted at the Treasury news they did so with a distinct sense of pride and a familiar course. For ERM rumours of weekend entry have been Friday trading for months. Indeed many market participants and economists believe that Britain went through the motions of joining ERM on Friday August 31. It could have been either a serious attempt - or a dry run for last Friday.

Traders swear that the Bank of England was in the foreign exchange market on that Friday afternoon, driving the pound down to DM2.95 and the chimes of Big Ben towards a desired entry level of DM2.95 - the very rate agreed by the EC's monetary committee this weekend. The Bank managed to sell the pound down to DM2.95 on August 31. But there it stuck.

As for the base rate cut, the markets also then had wind that ERM entry at that rate would mean a likely one percentage point trim.

But the Bank of England was considering cutting interest rates as long as four weeks ago, ERM entry or no ERM entry, Eddie George, the Bank's deputy governor, invited two top City economists to lunch last month. He left them guessing over the Bank's grilling silence as to what pressing economic topic of the day he wanted to pick their brains about.

It was not until coffee that he asked the two - from Swiss and US-owned banks - whether the Bank should spare industry the red and cut interest rates then and there. Both argued against it. But now only one of the two economists is still publicly arguing that ERM entry and the base rate cut has come at the wrong moment.

Brussels speak

The fiercest battle in the crucial meeting of the EC mon-



"I'll always remember where I was when I heard about ERM entry".

etary committee at the weekend was not about sterling's rates, or the future of European monetary union - but over who should tell the press.

Jacques Delors, the European Commission president, wanted to mark sterling's entry in some special way. His first idea was that Guido Carli, finance minister of Italy which currently holds the EC presidency, should summon his 11 counterparts for a special meeting in Brussels. The veteran Carli was, however, in bed with flu. So Delors was advised to give his idea, and Carli, a rest.

Delors' fall-back plan was that the communiqué should have a higher political imprimatur than just the senior bureaucrats who make up the monetary committee. So, not only was it issued in the name of "ministers and central bank governors" - but to give this claim greater plausibility with the disbelieving press, the communiqué was to be delayed until 5pm (even though agreement had been reached about three hours earlier) so that

it would look as though these great men had scrutinised every iota and fraction.

Mario Sarcinelli, the committee's Italian chairman, was happy to go along with this ruse - which depended crucially on any official leaving earlier than 5 pm refusing comment to journalists.

But Hans Tietmeyer, the senior Bundesbank board member, refused to play ball. Not a man who likes to appear devoid of authoritative details, Tietmeyer said he had to leave and that if Sarcinelli didn't speed up photocopying the communiqué, he, Tietmeyer, would break the news. And so it proved.

Thatcher hand

Jacques Delors' comments on Britain's entry to the ERM imperfectly hid his anger, according to one commission-watchers in Brussels.

Delors was angry at two aspects of the British announcement. The decision to express the central rate in terms of D-Marks could be seen as a snub for the Ecu - although most officials would not interpret it that way. And he did not like the decision to enter with the wider 6 per cent bands used by Spain rather than the narrower bands used by all other ERM members.

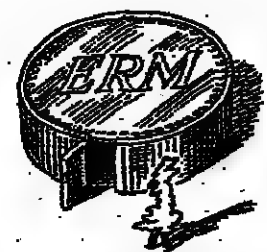
Underneath all that, however, lies a more serious political worry for Delors. It is that Margaret Thatcher is now in a position to call an election in late spring or early summer next year. She would then have time to return to Britain's European partners with a renewed mandate, and a greatly strengthened negotiating position for the final stages of the intergovernmental conference on monetary union.

The Bundesbank's worries about the timing of European monetary union make Germany an increasingly unreliable ally. The last thing Delors needs is a stronger hand for the British prime minister.

BRITAIN AND THE EMS

No quick-fix solution to economic problems

Nigel Lawson explains why the ERM decision is so important



The objectives of economic policy are easily stated: to suppress inflation and to create the conditions for a sustained improvement in economic performance, which in turn will permit the maximum practicable improvement in the living standards of the people.

The problem for any government, and in particular for the Chancellor of the Exchequer, is how best to achieve these two objectives. When I first became Chancellor in 1989 I reviewed the policies then in place, and the range of instruments at my disposal, and concluded that I should set myself three key targets: a balanced budget, tax reform, and the entry of sterling into the Exchange Rate Mechanism of the European Monetary System. Over the years, the first two of these have been achieved, but the third, consistently elusive one, has been less so. It was not for want of trying, but I was unable to overcome the deep-seated opposition of the prime minister.

Now that, at long last, ERM entry has been decided, the government has a coherent economic strategy which should make it possible in due course to attain on a lasting basis the twin objectives I listed at the beginning.

No doubt the timing of ERM entry could have been better. It would undoubtedly have been better, for example, had we entered when I made my most determined effort to do so, towards the end of 1985, when UK inflation stood at the new European Community average of a little over 5 per cent, and was coming down still further, and when the pound stood at some DM3.75. Had we done so, the subsequent sharp fall in sterling in 1986 would not have occurred, and we would have avoided the levels of inflation we have today.

But what matters is that the historic decision has now at last been taken.

Why is it so important, and in practice so necessary?

It is, I think, nowadays widely recognised that the suppression of inflation requires firm monetary discipline. In theory, that discipline can be either internally based, through control of the domestic monetary aggregates, or externally, through control of the exchange rate. Historically, we have tended to follow the external route, whether via the gold standard (notably in the period up to the first world war) or via the dollar standard, during the period following the second world war.

Today, when financial discipline (which is essential to the success of the UK and the globalisation of financial markets) has made the domestic monetary aggregates an especially unreliable guide, an external discipline, should



British entry into the ERM eluded Nigel Lawson as Chancellor

there be one readily available, is clearly preferable. And of course since 1979 there has been one readily available, in the shape of the Exchange Rate Mechanism of the EMS, which itself is essentially based on the Deutschmark.

Moreover, there are two further practical advantages in an external, exchange-rate based monetary discipline. The first is that it is much more readily explicable to the general public – not something to be sneezed at in a democracy. And the second, which is to some extent linked with the first, is that it provides much greater credibility.

Most important, the need for employers to bear down on their labour costs in general and pay rates in particular, because they know they are being hedged out by a sterling devaluation, has more credibility and thus more force than a warning expressed in terms of a non-accommodating domestic monetary policy.

Of course, the credibility of this particular exchange rate objective depends on the credibility of the EMS as a system, and of the Deutschmark as a non-inflationary currency. Thanks to their track record in recent years, the market credibility of both is reassuringly high. This is particularly true of the Deutschmark, where credibility is reinforced by, *inter alia*, the fact that German monetary policy is the responsibility of a statutory independent central bank, charged by law with the task of maintaining monetary stability. There is, incidentally, a lesson for us in this, too, but that is a matter for another day.

If, *per impossibile*, the Bundesbank were to succumb to a fit of madness, and become converted to the cause of inflation, then, even within the EMS, we would be free to realign sterling in an upward direction to protect us from the inflation. This effectively disposes of the "loss of sovereignty" myth: we have pegged sterling to the Deutschmark

said, in practice infrequent and short-lived, and should be countered by (stabilising) intervention.

What would be wholly wrong is the suggestion in some quarters that an imprudent reduction in interest rates should be concealed, but offset by fiscal tightening – higher levels of taxation. It would be both highly dangerous, and largely ineffective, to try and use fiscal policy in this way.

There are some who hope, and others who fear, that full membership of the EMS is a step towards complete Economic and Monetary Union; that is to say, to a single European currency. This is clearly mistaken. Not only has the EMS (which is an agreement between the monetary authorities of the member states wholly outside the framework of the Rome treaty) existed successfully for 11 years without any move towards ERM, but the strongest advocates of ERM, such as Jacques Delors, explicitly argue that it is necessary partly because the EMS cannot survive the single market with its complete absence of exchange controls, and partly because the EMS is a purely economic arrangement which will not bring about the complete political union that is implicit in a single currency.

The first of these propositions is, I believe, clearly mistaken: the second assumes a desire for complete political union which at present simply does not exist, and indeed may well never exist. The only practical connection between full membership of the EMS and ERM is that, as a country, our participation in the former will at last enable Britain's voice to carry the authority it should in the important discussions that lie ahead about the latter, not least at the forthcoming inter-governmental conference in London.

There are other incidental advantages which ERM membership will bring. The greater exchange rate stability *vis-à-vis* our most important export market (and our principal competitors in third markets) will be of benefit to British industry. Politically, too, by depriving the Labour party of its only serious economic policy plank in its platform, it cannot fail to support the Conservative party's prospects in the next general election, whenever that may be.

What it will not do, however, is provide a quick-fix solution to the current difficulties of the British economy. Least of all does it open the way to an opportunistic "golden scenario" in which interest rates come down rapidly leading to an early election in a burst of phenomenal euphoria. The benefits of ERM membership are real, but only if accompanied by economic stability; and so far from providing instant gratification – though the immediate market reaction was certainly encouraging – they will build up gradually over the years.

I warmly congratulate my successor on his signal achievement. If my own resignation last year indirectly made it less difficult for him, then so much the better.

The view from Germany An important step in the right direction

By Wilfried Guth

strengthening the cohesion of the Community. As to the chances of success for the policy objectives it is obvious that entry into the ERM is by itself no guarantee whatsoever; there is no quasi-automatic anti-inflation mechanism involved in the system and the Chancellor has repeatedly declared that he is fully aware of this. As in all other countries, success or failure in the fight against inflation depends entirely on the government's courage and perseverance to pursue appropriate policies.

Apparently, the British government is determined to continue firmly on its stabilisation course. Undoubtedly, membership in the ERM can be of significant help as the experience of other member countries, France in particular, has shown. By the government's observation of the "rules of the game" of such a proven stability-oriented bloc, national fiscal and monetary policies – as well as those of employers and trade unions – are given a set of parameters. In the UK's present circumstances, the expectations of market participants – given a better recognition of policy targets – can now, broadly speaking, be expected to move in the right direction. That in itself will provide an important element of stability.

What are the advantages for the Community? In the field of exchange rates, Britain's entry into the ERM will bring to an end an important inconsistency. Up to now sterling has been a significant member of the "Ecu currency basket", and has influenced its fluctuations but has not been anchored in the system of exchange rate stability. Therefore, a more stable development of the private "basket Ecu" can be expected which will be welcomed by all market participants. Yet, more important still, is the psychological effect of Britain's entry. It will in due course significantly broaden and strengthen the bloc of stability which Europe represents in the international monetary order. Having said all this, however, it must be stressed that the real test of Britain's "Europe-mindedness" is still to come. And it will come very soon, with the start of the two inter-governmental conferences in December.

The European Monetary System and the ERM, important as they are and useful as they have proven, can only be considered "half-way stations" on the road to full Economic and Monetary Union (EMU), the declared aim of all Community

members. Regrettably, the British government has not yet found it possible to commit itself fully to this final aim. Although the submission of a letter of intention to the Delors committee by Mr John Major was highly to be welcomed as an indication of Britain's interest and willingness to participate in the shaping of the future structure of the Community, it failed to endorse the concept of a European Central Bank and a single currency.

Leaving aside the question of desirability of a full ERM, it is fair to say that only with such a final structure will the full benefits of the free market for goods, services and capital be reaped for both individuals and enterprises. Or to phrase it in more political and global terms, that the proper weight of the Community can be established. It definitely seems worthwhile to sacrifice a certain amount of national sovereignty, limited anyway today in the monetary field, in order to achieve and share in a higher degree of European sovereignty.

Particularly from a German point of view it is of paramount importance that Britain, with its firmly rooted liberal and free market philosophy and mentality, takes an active part in this process. Let us hope that the entry into the ERM will eventually prove a turning point in Britain's attitude towards economic, monetary and political union. I am inclined to add that Germany is firmly committed to this aim, which should help to mitigate concerns of some of our partners with respect to the increasing economic weight of the unified Germany.

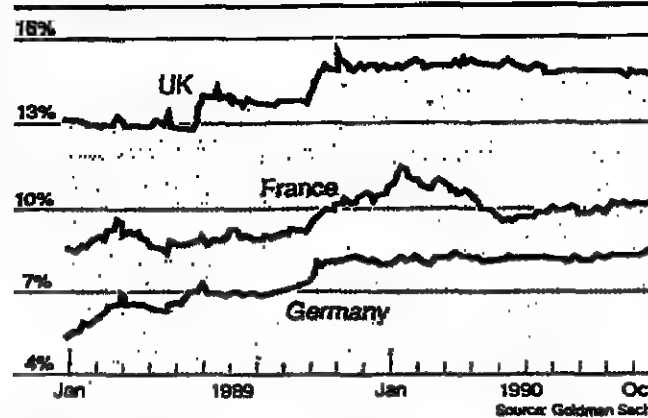
Wilfried Guth is former chief executive of Deutsche Bank and now a member of its supervisory board.

LOMBARD

The new rules of the game for sterling

By Samuel Brittan

3-month interest rates



rise more – but there is some limit to how far wages can diverge in different sectors in a single economy. The divergences will be smaller if EMS entry induces governments to reform tax subsidies for home owners and "Nimby" planning controls on new building.

The need to maintain credibility and confidence makes a UK budgetary debacle of the kind that has caused President Bush to shut the White House unthinkable. Instead, there will be pressure to maintain a near-budget balance over an economic cycle. This will be a difficult enough goal to maintain in the face of spending pressures without attempting fiscal fine-tuning as well.

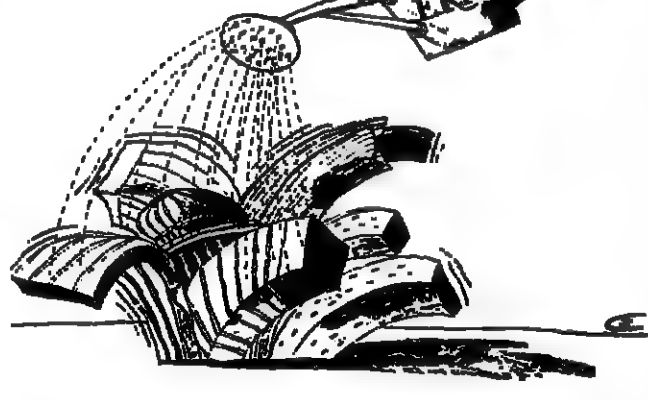
As for credit controls: in view of the freedom of capital movements enshrined in the single market they would be a cheap political gesture from which the main beneficiaries would be the overseas competitors of British financial institutions. The one change worth attempting is in banking procedures to stop ordinary personal non-housing borrowers from borrowing on mortgage terms ("equity withdrawal") therefore more cheaply than some large industrial companies.

Fixed exchange rates with realignments as a very last resort will remind people of the Bretton Woods system which collapsed in 1971-73. But there are differences. The permitted margins are wider – 2½ per cent for founder ERM members and 6 per cent for second-tier newcomers like Spain and Britain. Moreover, in contrast to Bretton Woods, there is a Very Short-Term Financing Facility (VSTFF) under which central banks under pressure can count on unlimited intervention to support their currencies from their partners.

Moreover, the ERM is part of a broader European movement in which much political capital has been invested and which has the goal of monetary union and a single currency.

But the most important difference is in ideas. Bretton Woods was widely regarded as a constraint on growth and employment. Today very few governments (except the American) believe they can permanently buy more output and jobs by sustained currency depreciation.

Another key distinction is that the currency anchor is the low-inflation Mark rather than a dollar, which was suffering from the inflationary financing of the Vietnam War. Despite German unification, the commitment of the Bundesbank to price stability and its popularity and political support are light years removed from the position of the Fed in the 1970s. If I am wrong and hard money virtue deserts Germany, then



Martin Jacob, the chairman of Barclays de Zoete Wedd, the investment banking arm of Barclays Bank. His main concern has been that the integration of the Schengen Five (Belgium, Netherlands, Luxembourg, France and Germany) would create a core to the EC from which London would be excluded. "The chances of their financial centre lying for ever elsewhere was very remote," he said.

This also means that London should preserve its role as the main foreign exchange market

ling liquidity and ease of execution. But London's ability at least to hold on to what it has got has been strengthened by this weekend's developments.

Mr Stephen Lewis, an economist who specialises in London's role, believes it will happen. "I expect to see a pick-up in foreigners doing business in their domestic securities in London," he says. "With London part of the European financial system, you have an underlying political reason to do it."

Since the City is not in the

There is little doubt that the UK's entry into the ERM is of profound significance in the longer term for the City and for its role as a financial centre in Europe

for the EC, though in the long run the process of monetary integration in Europe and the move towards a single currency could make a large part of those markets redundant. Given the profits that banks make from trading foreign exchange and selling currency hedging services, this could be a significant loss, ironically.

A related long-term question is whether London can evolve into the central stock market for EC securities. It already has a sizeable slice of dealings in non-UK securities because it is often cheaper and easier to deal in big international blue chips there than in Frankfurt or Paris.

The answer depends to some extent on how fast other stock exchanges progress in develop-

Britain will have to aim at a series of upward realignments against the Mark – which will happen when pigs learn to fly. For a time it may look as if sterling pigs have performed just this feat. Although the main medium-term test of British entry will be the avoidance of downward realignment, the immediate problem is the opposite one of upward pressure on sterling. There is the famous "wall of money" expected to descend on London seeking an interest rate 5½ per cent higher than Germany's.

This problem has sometimes been called the peseta problem. This is because the peseta has been near the top of its range against the DM, as funds have come into Spain to take advantage of higher interest rates.

The answer, in the case of both the peseta and sterling, must lie in a mixture of intervention and allowing the exchange rate to move towards its effective upper limit, likely to be about DM13.13. For the nearer the pound gets to its upper limit, the greater the risk of a later fall with which the speculator has to reckon.

Mr John Major has spoken of an upward realignment (the pig flying) as preferable to an excessive cut in interest rates. He needs to be careful here, as too great a flexibility in the ceiling will cast doubt on his determination to maintain the floor. It would be better to rebuild reserves, which were drawn down while sterling was under pressure.

More use should also be made in the ERM of small and occasional parity changes subject to the technical rule that the maximum change in the central parity should be less than the permitted band of fluctuation. (The rule is required to prevent speculators having a one-way option.) Even in Brussels they must know the meaning of *renouer sauter*, and a more active use of the bands would be quite consistent with the aim of the earliest possible full ERM – so long as countries with 6 per cent bands adopt the normal 2½ per cent ones as soon as possible.

Although the government will resist further large interest rate cuts almost too strenuously in the weeks ahead, there will be a temptation to reduce them too far in 1991 as the election approaches.

This indeed will be the test of the government's seriousness. If it reduces interest rates as little as necessary to stay within its ERM margins, it will be serious about using the ERM to fight inflation. If it reduces them as much as possible, even if it greatly increases the risk of a later fall, it will be serious about using the ERM to fight inflation.

It is easy, however, to exaggerate the likely impact of ERM on the City. Despite the worries that London was really losing out to continental centres. The numbers of foreign banks and securities houses continued to rise, and markets expanded, even as the UK's economic plight worsened. The fact that Germany enjoyed a strong economy and stable currency was not producing any conspicuous rise in Frankfurt's position.

In a study last year, the Bank of England noted that quite separate factors, like a benign regulatory environment, a spirit of innovation and the gravitational pull of large numbers of people and institutions were, if anything, more important. It concluded back then that while there was no cause for complacency, London was well-placed to meet the challenge.

This implies that while London may now be more closely plugged in to what is happening on the continent, it will also have to preserve its special characteristics from influences in the opposite direction. Will it now be easier for Germany to impose what many consider to be its stifling regulatory regime on London? What of the growing power of Brussels over the financial markets as 1992 approaches? Will the universal banking traditions of the continent, which are at odds with the more specialist style of the City, come to prevail?

There is a danger that Germany will become so powerful that it will set the rules," says Mr Lewis.

What does seem certain is that the absence of London for many more years from full EC participation would have gradually eroded many of its advantages. That prospect has now been removed, and it is up to London to make the most of the new possibilities.

We set more wheels in motion
R.J. HOARE
 Leasing Limited
 337 Poole Road, Bournemouth, Dorset BH12 1AE
 Tel: (0202) 752400 Telex: 41351 Fax: (0202) 752800

FINANCIAL TIMES COMPANIES & MARKETS

Monday October 8 1990

Fletcher King
 SURVEYORS, VALUERS
 COMMERCIAL PROPERTY
 CONSULTANTS
 Stratton House Stratton Street
 London W1X 5FE 071-493 8400

INSIDE

Polly Peck puts price on survival

To bridge its immediate liquidity gap, Polly Peck International believes it needs no more than £200m, assuming bank creditors agree this week to give a longer breathing space on debt. The group strategy for remaining solvent through until January depends on remitting much of the £143m in cash it claims to have in Turkey and northern Cyprus, getting asset disposals under way and receiving some Turkish government support. Most important, however, is persuading creditors not to demand the repayment of nearly £200m in loan facilities and commercial paper which falls due in the final three months of this year, writes Clay Harris and David Bernhard. **Page 20**

Fight for cash in Willis bid

The refusal of Corroon & Black to consider a \$40-a-share cash offer from Aon Insurance and pursue a lower paper bid from Britain's Willis Faber means many arbitrageurs face large losses. Last week they were claiming substantial interest in a mechanism which would get them cash payment for their shares. But both Willis Faber and Corroon remained confident the merger will go ahead. Nikk Tait and Richard Lapper report. **Page 20**

Worst of times for junk bonds

The last couple of months have been the worst ever for the US junk bond market. Absolute bond yields are at an all-time high, as are yield margins relative to US Treasuries. Iraq's invasion of Kuwait appears to have triggered the latest plunge by bringing to the forefront concerns about economic recession, a harbinger of doom for junk bonds, and the Salomon Brothers Composite High-Yield Index fell 4.72 per cent in August and 5.91 per cent in September. Tracy Corrigan reports. **Page 23**

Market Statistics

| | | | |
|-----------------------|----|-----------------------|----|
| European turnover | 28 | Money markets | 28 |
| FT-A World Index | 28 | New list bond issues | 28 |
| FT/ABD int bond index | 28 | NR Tokyo bond index | 28 |
| Foreign exchange | 28 | Traditional options | 28 |
| London stock index | 28 | US money market rates | 28 |
| London share market | 28 | US bond prices/yields | 28 |
| Managed fund services | 28 | World stock index | 28 |

Companies in this section

| | | | |
|-----------------|----|-------------------|----|
| Aker Drilling | 21 | Polly Peck | 20 |
| CEAC | 20 | Propeller | 20 |
| Citicorp | 21 | Rhone Poulenc | 21 |
| Corroon & Black | 20 | Simpson Companies | 20 |
| JCB | 21 | Tippeco | 20 |
| Mitsubishi | 21 | Willis Faber | 20 |
| Olympic Airways | 21 | | |
| Piaggio | 21 | | |

Uncertain results of a newly stable pound

The markets' immediate reaction on Friday to entry to the ERM was to push up both sterling and UK equities. That double reaction may prove justified for the immediate future, and perhaps in a long term some years away. In between, however, lies a time filled with uncertainty and potential difficulties for UK companies and markets.

Analysts differ on sustainability of rally

By Antonia Sharpe

Stockbrokers' analysts were yesterday predicting rising share prices on London's stockmarket following Friday's news.

Mr John Reynolds, market strategist at County NatWest, says that - given the market's short supply of stock and the low trading volumes in recent months - there is a danger that the bounce will be so pronounced that many fund managers will be left holding cash.

He advises investors to use futures or index options to gain immediate exposure to the equity market.

Interest-rate sensitive and domestically-oriented sectors are the most obvious beneficiaries of Friday's cut in base rates. Mr

Mark Brown, chief UK strategist at UBS Phillips & Drew, says that construction and building contracting stocks, which have been savaged by high interest rates and threats of bankruptcy, are expected also to be re-rated. Retailers should get a lift as Friday's cut in interest rates, and the prospect of a further one-point drop in the next few months, boosts spending in the run-up to Christmas.

Stocks of companies heavily dependent on overseas earnings are likely to lag behind the market in the short-term as sterling appreciates, though stocks which have an attractive yield premium, such as ICI, should get some protection.

Mr George Hodgson, market strategist at S.G. Warburg Securities, says that entry into the ERM is not an easy option for manufacturing industry, which will no longer be bailed out by devaluation when wage inflation gets out of hand.

"The UK economy, especially the manufacturing sector, is still in for a long slog," he says, and this will keep the pressure on manufacturing stocks.

Mr Bill Smith, chief equity strategist at Barclays de Zoete Wedd, says that hopes for a quick turnaround in domestic demand may be disappointed. Highly-gear capital goods companies, which would benefit from lower interest rates as their borrowing

Companies deriving 20% of trading profits from the EC

| (excluding UK) | | | | | |
|----------------|-----------|---------------|-----------|----------------------|-----------|
| | % profits | | % profits | | % profits |
| TIP Europe | 56 | BBA | 30 | TDG | 22 |
| Unilever | 50 | Manpower | 30 | Cadbury Schweppes | 21 |
| Queens Moat | 49 | Gleco | 29 | MB | 21 |
| Nadwood Foods | 42 | De La Rue | 28 | Allied-Lyons | 20 |
| RMC | 41 | Steeley | 28 | British Aerospace | 20 |
| Woleley | 37 | BPB | 27 | Fisons | 20 |
| T & N | 36 | IMI | 25 | Dawson | 20 |
| Lucas | 36 | Siebo | 25 | Lowy | 20 |
| Thorn EMI | 35 | British Steel | 25 | Satchi | 20 |
| GKN | 34 | APV | 24 | Vickers | 20 |
| SK Beecham | 33 | Pilkington | 24 | WPP | 20 |
| Redland | 32 | GEC | 22 | Scottish & Newcastle | 20 |
| TI Group | 30 | Guinness | 22 | | |

A higher pound will reduce the value of companies' earnings from the rest of the EC. But a stable exchange rate should reduce profit swings, making shares more attractive

UK funds may seek other EC markets

By Philip Coggan

OVERSEAS investors are expected to flock into sterling-denominated assets as part of the immediate reaction to Britain's entry into the exchange rate mechanism. But entry could also cause a fundamental change in UK institutional portfolios.

Historically, UK pension funds have kept a large percentage of their funds in sterling to ensure that their assets matched their liabilities (funding the retirement benefits of UK employees). But the more closely the pound is linked to the D-Mark, the more sterling and EC assets become indistinguishable.

The typical weighting of a pension fund is 67 per cent in UK equities and 27 per cent in overseas shares. The international element is then weighted according to the relative capitalisations of the various stockmarkets.

Because of the underdevelopment of some EC stockmarkets, the theoretical weighting of equities from other EC countries is currently only around 4 1/2 per cent. In fact, however, UK pension funds have tended to be overweight in the rest of the EC - recent estimates suggest that they have 8 per cent of their portfolios invested there.

But in the limiting case of European monetary union, Mr Paul Woolley of fund management group GMO Woolley has argued that sterling and EC assets would be effectively the same. If so, then the 61 1/2 per cent of their portfolios that pension funds currently devote to EC (including UK) assets ought to be divided in a radically different manner. Based on market weightings, theory would suggest that only 24 per cent of assets should be in UK equities while 37 1/2 per cent should be invested in the rest of the EC.

For cultural reasons, such a huge shift is unlikely; and ERM entry by itself does sterling less closely to continental currencies than would full-scale monetary union. None the less the chances are that UK pension funds will now shift more of their portfolios into other EC markets. Not all the funds will be switched from the UK - some may come from other overseas markets such as the US.

Reflections in a hall of distorting mirrors

Andrew Hill explores the implications of ERM entry and lower interest rates for UK corporate profits

From recession to rejoicing in half an hour: the British equity market's reaction to Friday's news that the UK would take full European Monetary System membership and drop interest rates was exciting to watch.

But when it comes to reflecting reality, the stockmarket has always been a hall of distorting mirrors. The short-term reaction in the markets may be euphoric, but it will take slightly longer for corporate profitability to catch up with investor sentiment.

Take building materials and construction companies. On Friday, the share price of Tarmac, Britain's biggest housebuilder, rose 16 per cent in minutes. But less than a fortnight ago Tarmac announced that its first-half profits

had fallen by 36 per cent, and construction output in Britain is still expected to drop by 8 per cent this year.

A reduction in interest rates may inject confidence back into the enervated housing market, but some analysts believe that base rates will have to come down still further and stay down before the sector's profits improve. And it could take a year to 18 months for such improvements to show through.

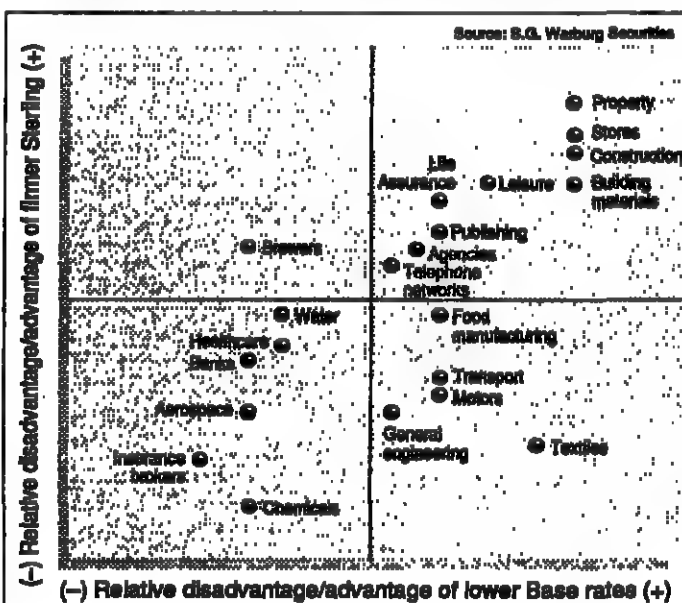
By contrast, building materials companies like RMC, Redland and Sketley have been supported recently by their strong overseas earnings, in particular in West Germany. A stable, strong pound put pressure on such earnings when they are translated into

sterling. None the less, the strong relative growth of commercial housing markets will help these companies compared with their more domestically-minded rivals.

The chemicals sector could take the hardest knocks from a sustained strong pound. Imperial Chemical Industries, traditional bellwether of the British stock market, was another beneficiary of Friday's surge in equities. But with its fiercest competition coming from Germany, the chemicals sector's profitability is sensitive to the D-Mark/sterling exchange rate.

Analysts also warn against betting on a long-term improvement in consumer spending, particularly in the leisure sector. One side-effect of a continued squeeze on corporate profits (from interest rates and a strong pound) is likely to be a slowing of wage increases and possibly a jump in the unemployment figures. A revival in profits for the pure leisure companies - the bingo halls and discotheques, for example - might prove short-lived.

Interest rate reductions in the UK will not be good news for all companies with debt on their balance sheets. Warburg points out, for example, that conglomerates like BTR and Tomkins have bor-



rowed money in the US while keeping cash on deposit in Britain. Those groups' earnings are likely to suffer as UK base rates come down, because interest charges (in the US) will remain the same, while interest receivable will be reduced.

Analysts also warn against betting on a long-term improvement in consumer spending, particularly in the leisure sector. One side-effect of a continued squeeze on corporate profits (from interest rates and a strong pound) is likely to be a slowing of wage increases and possibly a jump in the unemployment figures. A revival in profits for the pure leisure companies - the bingo halls and discotheques, for example - might prove short-lived.

Economics Notebook

All to play for on monetary union

The British government's decision to take sterling into the exchange rate mechanism of the European Monetary System will elevate Mr John Major, the Chancellor, to hero status when he attends this month's regular monthly meeting of EC economics and finance ministers in Luxembourg later today.

But it is less certain that the long awaited move will materially affect Britain's capacity to influence the European Community's drive towards economic and monetary union (EMU).

On Saturday, in an interview with BBC Radio's Today programme, the Chancellor made clear that full membership of the EMS did not mean that the British government was now joining the enthusiasts among EC member states that seek a rapid move to EMU.

Britain's European credentials may be looking more polished than at any time since entry into the community nearly 20 years ago. But Mr Major made clear that the government was still opposed to a "headlong rush" towards EMU.

To move swiftly towards a single currency or central bank "would be immensely economically damaging for Europe and immensely divisive for Europe," he said.

So Mr Jacques Delors, the com-

mission president, who has advocated moving from the present first stage of EMU, that began on July 1, to the transitional second stage as soon as January 1993, will draw only limited comfort from the government's ERM decision.

But similarly, Mr Major would be unwise to think that Britain's belated accession to the ERM will swing other member states in favour of his "hard Ecu" alternative for stage two.

This plan, to recap briefly, envisages the development of the present European Currency Unit into a parallel currency alongside existing EC currencies in the first stage of EMU. A main attraction of the plan for the Chancellor and Mrs Margaret Thatcher, the prime minister, is that it offers an evolutionary road to EMU rather than what the UK calls the "prescriptive road" mapped out by Mr Delors and which sets a single currency and central bank as its final goals.

Mr Major has been an assiduous promoter of the hard Ecu since first unveiling his plan in June. Last month, his hopes received a boost when Mr Carlos Solchaga, the Spanish finance minister, incorporated the hard Ecu in his own thoughts for the second stage towards EMU.

But other nations are now looking seriously at how to tackle the transition from the

present stage one of EMU, in which all countries gradually end up in the narrow band of the ERM and dispense with controls on the movement of persons, goods and capital in the EC, to the full economic and monetary union of stage three.

Last month, Mr Wim Kok, the Dutch finance minister, circulated compromise proposals for the second phase of EMU that envisaged the creation of a European central bank in the transition period. These ideas, as reported elsewhere in this newspaper, have formed the basis of an internal Bundesbank paper that would permit a move to stage two of EMU on January 1994, but only if strict conditions have been met. The conditions in the Bundesbank paper would ensure that any eventual European central bank would be as independent as the Bundesbank and as committed to combatting inflation.

If the internal Bundesbank paper becomes the basis of German policy towards EMU, it will constitute a major challenge to Mr Major's plans for the hard Ecu. It will set the tone of the debate on stage two if only because the Bundesbank is Europe's most independent central bank, with a proven track record for combating inflation, in an economy, which since German unification is more dominant in the EC than ever before.

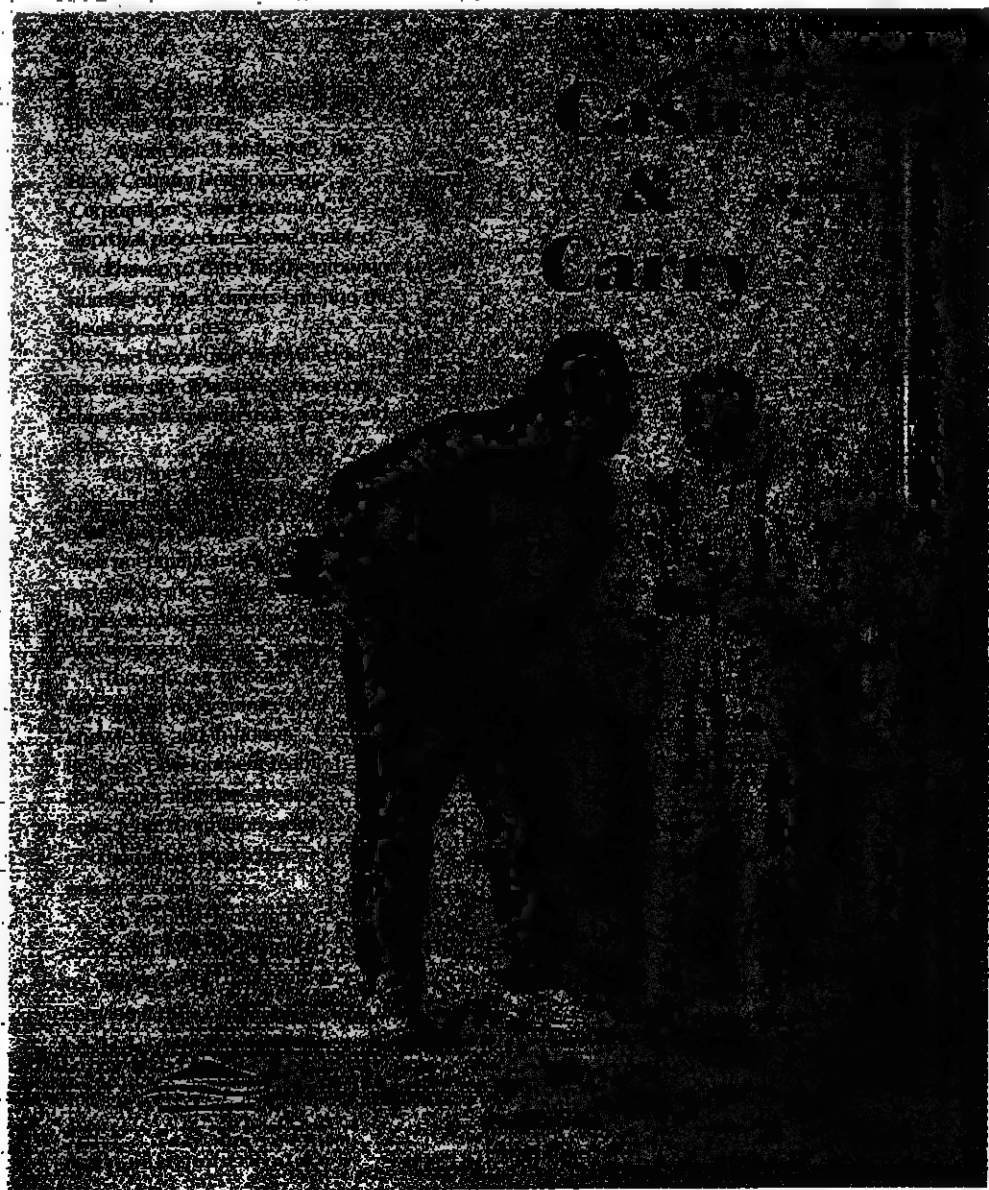
Mr Major's hard Ecu proposals have already been dismissed as virtually irrelevant by Mr Karl Otto Pöhl, the Bundesbank president. After last month's Rome meeting of EC economics and finance ministers to discuss EMU, Mr Pöhl said it was "false" to imagine that there had been any significant support for the British scheme.

He said the EC monetary committee, which brings together senior officials from the member states' central banks and finance ministries as well as the commission in Brussels, had investigated the hard Ecu proposals and rejected them.

Speaking in Frankfurt on September 15, Mr Pöhl said the Bundesbank could approve of the British goal of making the Ecu harder. But while it might be desirable to make the Ecu more attractive, it would be "largely irrelevant" from the viewpoint of monetary policy and more of "symbolic importance".

After such a put-down, one might ask why Mr Major is soldiering on with his plan. But his ability to secure sterling's entry into the ERM shows he is a dogged operator. He will be discussing EMU in Luxembourg today convinced that there is still all to play for when the EC Inter-governmental Conferences on economic and political union start in mid-December.

Peter Norman



For Linda Clement, Black Country Development Corporation, Black Country House, Rounds Green Road, Oldbury, West Midlands B69 2DG. Tel: 021-511 2000. Fax: 021-544 5710/021-552 0490

Please send me a copy of your 1990 Report & Accounts details of sites and premises available (please tick)

Name _____ Position _____
 Organisation _____ Address _____
 Postcode _____ Telephone _____

COMPANIES AND FINANCE

Polly Peck 'needs £200m to survive'

By Clay Harris in London and David Barchard in Ankara

POLLY PECK International believes it needs no more than £200m to bridge its immediate liquidity gap if bank creditors agree this week to give it a longer breathing space on debt. Its strategy for remaining solvent through January depends on raising this sum by remitting much of the £143m in cash it claims to have in Turkey and northern Cyprus, getting asset disposals under way and receiving some Turkish government support.

More importantly, however, it must persuade creditors not to demand the repayment of a further £200m in loan facilities and commercial paper which falls due in the final three months of this year.

At a meeting in London on Friday, bankers agreed only to a one-week moratorium on repayments but held out the possibility of accepting a longer standstill.

The future role of Mr Asil Nadir at Polly Peck is becoming less certain. The board rejected his offer to resign as

chairman last Monday, but yesterday a senior director refused to confirm that was still the case. Mr Nadir has flown to Turkey for talks.

Directors are now playing down the importance of direct financial assistance from Turkish institutions, and claim to be looking instead only for advance export credits.

Turkish officials said in Ankara that the decision about any rescue package would rest with President Turgut Ozal.

"As far as I know, no such decision has yet been taken and there are no signs that a package is on the way," one Turkish banker said. "But if Mr Ozal wants one, it could still be launched."

Turkish government sources have declined to comment on claims that a package will be approved, but civil servants say in private they have not yet seen any signs of one.

Western diplomats in the Turkish capital also say they have not yet seen any evidence of a support package. "Presi-

dent Ozal may go ahead with one, but he has not made any publication of his intentions yet," said one diplomat.

The Polly Peck affair, he added, was surrounded by a web of local political rumours which made it extremely difficult to assess the situation of the company and its financial problems. "The issue is highly political. It is very much Mr Ozal's personal decision."

Turkish private sector bankers in Istanbul continue to cast doubt on any idea of a rescue, warning that if the main state banks provided help, they could face possible legal complications later.

"I very much doubt that the head of any of the Turkish state banks will feel able to sign documents giving permission for a loan to Mr Nadir," said one banker. Another said: "There are always ways of finding money in a desperate situation. President Ozal can still do it if he wants to, but he would probably attract some unpopularity if he did."

Polly Peck told bankers in London on Friday that its net borrowings had risen from £384m to £1,076m in the three months to September 30. The main reason was a near halving of cash balances from £404m; outstanding borrowings declined by about £20m over the period, the company said.

The most dramatic three-month fall in cash balances was shown in the "Near East", which includes Turkey and northern Cyprus, from £308m to £143m. A director claimed yesterday that this decline reflected normal seasonal payments for citrus fruit and electronic components.

On Friday night, Moody's downgraded the ratings on £600m of debt issued by Polly Peck International Finance, a subsidiary of Polly Peck, for the second time in a week.

Swiss franc and D-Mark bonds issued under a senior basis by the parent were reduced from B2 to B3 and subordinated convertible preference shares from B2 to Caa.

Propeller sells back Skopes at £1.8m loss

By Jane Fuller

PROPELLER, the USM-quoted leisurewear company, is selling back to the vendors a 100 per cent business that it acquired only a year ago.

After the market closed on Friday, it also announced an interim retained loss of £2.44m, a 3-for-2 rights issue to restore its balance sheet and provide working capital, the cancellation of last year's dividend and the resignation of its non-executive chairman, Mr Mike Keen.

Propeller described as misguided the purchase of Skopes, a swimwear distributor which could have cost it up to £2.25m.

Although Skopes had remained profitable, "the capital commitment of completing the acquisition would prove to be far too onerous for the group," as initial consideration. Propeller paid £1.5m cash and issued a £1.35m loan note. Further payments were related to profit in the years to July 1992.

It had also become clear that the integration of Skopes into the group was restrained by the acquisition agreement, "which effectively locked up the Skopes assets and business until all of the consideration was paid."

It had, therefore, been decided to accept the offer of the vendor, Delve Limited, to buy back the company. A loss of £1.84m on the disposal was included in the interim results as an extraordinary item.

The pre-tax loss for the six months to August 3 was £461,000, against £410,000 profit last time, on turnover of £5.54m (£5.66m).

An exceptional provision of £514,000 was made for debtors and stock, partly relating to the previous year. This was explained as "arising from the breakdown of control over accounting procedures." Interest charges increased more than tenfold to £438,000 (£27,000).

Mr Keen resigned "to concentrate on his role as chairman of Corton Beach," the USM-quoted motor, food and leisure group which has a 22 per cent stake in Propeller.

The rights issue - at 10p per share, the same as Friday's close - should raise £2.25m.

Moves for cash in Willis Faber US bid

By Naddi Tait in New York and Richard Lapper in London

ARBITRATORS, some of whom face large losses as a result of the refusal by the directors of Corroon & Black to consider a \$40-a-share cash offer from Aon Insurance and pursue a lower paper bid from Britain's Willis Faber, were last week claiming there has been "substantial" interest in a mechanism which would get them cash for their shares.

However, both Willis Faber and Corroon remained confident the merger would go ahead. Willis shareholders have already given it a green light, and Corroon are set to vote in New York this morning.

To get cash, Corroon holders must ask to have the value of their shares "appraised" by the courts, traditionally a very lengthy process.

Bear Stearns, the US brokerage, has already said it intended to seek this option.

Under the merger terms if shareholders speaking for 8 per cent-plus of the equity seek the appraisal route, Willis Faber is free to walk away from the deal, although this condition can also be waived.

Last week, a couple of arbitrage firms were guessing that the "appraisal" interest might exceed 10 per cent, although Corroon, which has the only reliable figures, declined to comment. However, neither insurance broker expressed

doubts about the deal itself. "We're looking forward to the meeting and are pretty confident that we'll have approval," said Corroon on Friday night.

Willis, meanwhile, said it was unconcerned that the appraisal interest might run into double figures. Mr Peter Stevens, head of corporate affairs, said the filings would make no difference to the deal.

"We would be required to pay out to the people who are prepared to stick the course," he commented. "But many of them might change their minds in any case."

And even some of the angriest arbs were doubtful that the deal would be voted down, although they suggested the "no" vote could be hefty. The two companies start with the advantage that Corroon's managers and employees own 30 per cent of the stock.

In what seemed a desperate last throw, one arbitrator suggested the deal around midday still face legal hassles.

According to the latest Corroon document, complaints filed in New York and Delaware appeared to have been settled in principle, but individual shareholders could still opt out of such agreements, he noted. However, it seems unlikely that either company would allow this to prevent the deal moving ahead.

Launch for Smaller Companies Investment

By Philip Coggan

THE SMALLER Companies Investment Trust is being launched today via a placing on the main market by Guinness Mahon and Durlacher West.

The launch follows a long period in which UK smaller company shares have underperformed blue chips. But the directors of the company believe there has been "an over-reaction against the smaller company sector in which the adverse fundamental factors have been more than discounted in the price of the securities."

Smaller Companies is initially raising £15m. Three million units have been placed at 50 pence each with each unit made up of five ordinary shares and one warrant attached. The warrants give the holder the right to subscribe for one new share at 100p in the period 1995-98.

Managers of the trust will be Stronghold Asset Managers, a subsidiary of Principal Hotels, the former AC Holdings. The directors include Mr Alan Clements, finance director of Imperial Chemical Industries, and Mr Philip Chappell, adviser to the Association of Investment Trust Companies. Dealings are expected to start on Thursday.

Maxwell makes £60m Italian disposal

By Raymond Snoddy

MR ROBERT MAXWELL last night announced agreement to sell his Italian consumer publishing operation in a deal worth \$50m.

Mr Maxwell, chairman of Maxwell Communication Corporation, is selling MCC Italia - the Panini children's album collection publishers, to a number of offshore funds advised by Schroeder Ventures, the venture capital arm of the merchant bank.

Panini, which Mr Maxwell bought more than two years

ago, specialises in football stickers and character merchandising. It is believed to have had a particularly good year as a result of the World Cup.

The sale, set to be completed next month, is the latest in a disposal programme designed to reduce MCC's £1.9bn debt, most of it medium-term, by at least \$10m.

Mr Maxwell said last night a further disposal, the sale of the Macmillan encyclopaedia subsidiary, PF Collier, was "immi-

nent". The purchaser is expected to be Langenscheidt, the west German publisher, for a price of around \$97m.

The chairman of MCC said last week that the 20 per cent stake in Quebecor Printing and 27 per cent investment in Donahue's newsprint mill in Canada would both be sold to his private newspaper publishing company, Mirror Group Newspapers.

In a change of strategy, the television interests held by MGN, including the 20 per cent

stake in Central Independent Television, would be sold.

Negotiations are continuing for the sale of two other consumer publishing businesses - so far unnamed.

The final \$415m of Mr Maxwell's short-term debt, taken on as part of the financial package raised to buy Macmillan, the US publisher, and the Official Airline Guides, is due on October 23. Mr Maxwell has always said the money would be available in advance of that date.

CEAC profits boosted by acquisitions

By William Dawkins in Paris

NEARLY doubled sales and net profits were achieved in the first half of 1990 by Compagnie Européenne d'Accumulateurs (CEAC), Europe's second largest lead battery maker.

The group, which is itself about to be sold to Fiat, the Italian car maker, said the increase was almost entirely the result of acquisitions. Sales jumped from FF630m to FF1,160m and net profits

from FF52m to FF102m. Full year profits should at least equal last year's FF92.7m, the group forecast.

Compagnie Générale d'Electricité (CGE), the French telecommunications and engineering conglomerate, which owns all of CEAC's equity, announced last week that it will sell 60.1 per cent of that to Fiat as part of a share exchange and co-operation

agreement between the two parent companies.

The deal comes roughly a year after CGE bought the final 27 per cent of CEAC it did not already own, and increased the equity by FF305m.

Acquisitions which fuelled the rise were the traction battery operations of Chloride, of the UK, bought in July last year and Tudor, a Belgian battery maker taken over early

this year. CEAC made its acquisitions in response to a restructuring of the European lead acid battery industry which began in 1989.

Chloride's battery activities recorded sales of £55m last year, while Tudor's 1989 turnover was FF260m. This compares with CEAC's sales of FF1,160m - which included six months from Chloride - a 30 per cent increase on 1988.

Tipbook listing in Frankfurt

From today the shares of Tipbook will be listed in Frankfurt, to reflect the company's growing presence in Europe particularly in the expanding German market.

Mr Robert Montague, chairman, believed that entry by the UK into the ERM would facilitate interest from investors, and make Tipbook less vulnerable to sentiment based previously on the performance of the UK economy alone.

The UK account for 25 per cent in sterling terms of Tipbook's turnover from the core divisions. About 10 per cent was from Germany.

Strategy was the key word in a hectic week for international M&A, writes Brian Bollen. The biggest new deal was clearly the complex share and business swap between Fiat of Italy and France's Compagnie Générale d'Electricité, one of Europe's most significant cross-border corporate links so far.

The neat fit of businesses marks the start of a long-term strategic alliance and gives Fiat the chance to concentrate on its core automotive businesses. It also boosts further CGE's telecommunications operations and unites two major suppliers of railway equipment in the run up to 1992 and Europe's single market.

The alliance also seems to have resurrected doubts in Italy about the future of the country's economy and its ability to compete in European and world markets. General Motors demonstrated a degree of confidence in Italian industry with its purchase of 75 per cent of Diavia and Aurs, makers of car air conditioning equipment. This is seen as an important growth market in western Europe.

US soft drinks maker PepsiCo's purchase of Mexican biscuit maker Ganesa reflects its strategy of expanding in snack foods, the fastest-growing part of its operations. PepsiCo said it was attracted to its second-largest international food acquisition by Mexico's economic progress and its government's commitment to free market policies.

Swedish determination to expand internationally was further illustrated by the involvement of Trygg-Horren in a bid for US-based Home Insurance Co. Sweden's second-biggest private insurance company forms part of an international consortium which has acquired Home Insurance, put up for sale earlier this year by the troubled AmBass Corporation.

Source: FT Mergers & Acquisitions International

This announcement appears as a matter of record only.

October, 1990

Manweb

Manweb plc

£175,000,000
5 Year Revolving Credit Facility

Arranger

BARCLAYS SYNDICATIONS

Underwriters

Barclays Bank PLC The Mitsubishi Bank, Limited
The Sumitomo Bank, Limited The Long-Term Credit Bank of Japan, Ltd.
Midland Bank plc

Senior Lead Managers

Barclays Bank PLC The Mitsubishi Bank, Limited
The Sumitomo Bank, Limited The Long-Term Credit Bank of Japan, Ltd.
Bayerische Landesbank Girozentrale, London Branch Midland Bank plc

Lead Managers

Cho Hung Bank Den Danske Bank

Managers

Hessische Landesbank - Girozentrale, London Branch The Nikko Bank (UK) plc

Agent

Barclays Bank PLC

BARCLAYS

EVEN
BLUE CHIPS
SOMETIMES
GET FRIED.

Your customers might have the longest pedigrees in the business, but they can still go bust.

We're Europe's leading credit insurance broker, specialising in putting together cost-effective cover to suit the particular needs of our clients.

That can mean anything from a simple one-off catastrophe policy to a highly structured programme of risk protection in multiple markets.

CIA

THE CREDIT INSURANCE ASSOCIATION LIMITED
13 Grosvenor Place, London SW1X 7HH. Tel: 071 235 3550

WESSANEN

KONINKLIJKE WESSANEN NV

Notice of an Extraordinary General Meeting

of Shareholders
to be held at the Marriott Hotel, Stadhouderskade 21, Amsterdam at 10 a.m. on Monday, October 29, 1990

The Agenda, the sole item of which is two appointments to the Board of Managing Directors, is available for inspection from today at the company's office, Prof. E.M. Meijerslaan 2, Amstelveen and can be obtained free of charge by those who are entitled to attend the meeting from the Board of Managing Directors by October 24, 1990 at the latest (in case of proxy, the written authorisation is to be included).

As provided for in Article 28 of the Articles of Association, shareholders may attend the meeting and speak or cast their vote, or may be represented for these purposes by a proxy duly authorised in writing, provided that written notification of their intention to do so is received by the Board of Managing Directors by October 24, 1990 at the latest (in case of proxy, the written authorisation is to be included).

As provided for in Article 28 of the Articles of Association, holders of depositary receipts for shares may attend and speak at the meeting, or may be represented by a proxy duly authorised in writing, provided that they lodge their depositary receipts with the above-named bank by October 24, 1990 at the latest. In case of proxy, the written authorisation should be received by the Board of Managing Directors by October 24, 1990.

The meeting will also be open to representatives of the Press upon the production of their Press pass.

The Board of Managing Directors
Amstelveen, October 6, 1990

Koninklijke Wessanen NV
P.O. Box 410
1180 AK Amstelveen
The Netherlands



COMPANIES AND FINANCE

Canadian banks predict merger of larger institutions

By Bernard Simon in Toronto

CANADA'S banking industry appears to be smoothing the way for a giant merger or take-over involving some of the country's biggest financial institutions.

Ms Helen Sinclair, president of the Canadian Bankers Association, told a group of international bankers in Montreal that the federal government's recent proposal for financial services reform seem to reverse a long-standing aversion to mergers of large financial institutions.

"Our interpretation of the new policy and our fervent hope is that in the future the government won't automatically preclude the merger of two large institutions by sole reason of their size."

She noted that Canada's six big banks, some of which used to be in the top rank of international banks, have been overtaken in size by many of their foreign competitors. The biggest bank, Royal Bank of Canada, has assets of about \$125bn (\$81.06bn). While still among the top banks in North America, it is now Canadian Imperial Bank of Commerce.

is now dwarfed by many Japanese and European banks. Ms Sinclair said she had no knowledge of any mergers under consideration. But many observers of the Canadian banking industry have predicted an amalgamation within the next few years.

The two banks most often mentioned as potential merger candidates are Bank of Nova Scotia, which has significant management problems, and Quebec-based National Bank of Canada, the smallest of the six. The government said its proposals, published late last month, "create a framework for strong national institutions serving the Canadian interest. By opening new avenues of growth for Canada's financial institutions, the policy will strengthen their ability to meet the new challenges that have evolved in the global marketplace."

The last significant merger in the Canadian banking industry took place almost 30 years ago with the creation of what is now Canadian Imperial Bank of Commerce.

Olympic Airways plans sale of 49% stake

By Kerin Hope in Athens

OLYMPIC Airways, the state-owned Greek carrier, is prepared to sell a 49 per cent stake to another airline, according to a senior company official.

The airline is already in touch with several European airlines who have expressed interest, among them Swissair and the Dutch carrier KLM. However, given Olympic's accumulated \$700m debt and expected losses this year of more than Dr25bn (\$165m), no early decision is foreseen.

Assets total \$600m and annual turnover is almost \$1bn. But with more than 12,000 employees, the company is also considered by analysts to be heavily overstaffed. The airline is obliged to maintain flights to remote Aegean islands during the winter months. Olympic has a fleet of 32 aircraft, mostly Boeing and Airbus, which is gradually being renewed under an \$800m purchase plan launched earlier this year.

The carrier's main subsidiary, Olympic Catering, is already up for sale. With losses forecast at Dr4.5bn this year, half its 2,000 workforce was dismissed last month.

Citicorp to lodge appeal against Fed insurance ruling

By Nikki Tait in New York

CITICORP, one of the largest of the US commercial banks, plans to lodge an appeal against the recent decision by the Federal Reserve Board which bars it from conducting insurance activities at its Delaware unit, a Citicorp spokesman said.

Citicorp said it had filed notice of appeal with the 2nd Circuit Court of Appeals in Manhattan.

The Fed made its ruling on September 4, following a change last May in Delaware law that permitted banks to sell insurance nationwide out of their Delaware subsidiaries.

Under the terms of that legislation, assets, liabilities and records of the insurance units had to be kept separate from those of the bank.

In addition the banks were

limited to investing no more than 25 per cent of total capital, surplus and undivided profits in insurance operations. Moreover, there was a companion banking bill which limited banks' marketing operations to Delaware residents.

But the insurance industry, worried about the encroachment of the banks on its own territory, spent two years fighting the Delaware bill.

It claimed that the banks would bring unfair competition to a market which is already highly competitive.

Analysts said that the inability to sell insurance would make little difference to Citicorp, or other banks, in the short-run.

However, in the longer term, insurance operations could potentially be an important source of income for banks.

JCI claims South Deep likely to be low cost

By Philip Gawth in Johannesburg

JOHANNESBURG Consolidated Investments said that, not only was its South Deep project area "probably the largest and most important known gold orebody remaining to be exploited," but it was also likely to support one of the lowest-cost mines in South Africa.

It estimates gold could be produced at only R17,900 (\$6,992) a kilogram, compared with the industry average of R25,000. The gold price is currently about R32,000 a kilogram.

The information accompanies the listings prospectus of the South Deep Exploration Company (Soudex) which will be the exploration vehicle for the project.

South Deep, adjacent to JCI's Western Areas mine, will be raising R231.6m (\$90.46m) through a rights offer to fund continued exploration and mine development at the project.

The formation of Soudex is part of a transaction which includes the financially ailing Western Areas mine ceding its rights in the South Deep project as a way of clearing its

debts. Mr Kennedy Maxwell, chairman of JCI's gold and uranium division, said that they considered that South Deep was a "most extraordinary and exciting project".

He stressed, though, that no decision would be taken about opening the mine before the end of 1991 as the group wanted to be as sure as possible about the project.

He added that the total resource in the South Deep project area was over 780m tonnes, which translated into 116m tonnes of mineable ore after applying a mining cut-off grade.

The in situ grade of this ore was 9 grams of gold per tonne and the recovery grade would be in the order of 7.8g/t.

At an estimated milling rate of 180,000 tonnes per month the mine would have a life of about 40 years.

Mr Maxwell said that the mine would cost about R2.2bn in today's terms, but cash requirements would be around R1.8bn as the mine would earn about R400m revenue in its first seven to eight years of operation.

Rhône-Poulenc expects earnings per share to fall

RHÔNE-Poulenc, the French chemicals group, expects earnings per share to decline to about FF40 in 1990, compared with FF61 in 1989, according to Mr Jean-Pierre Trouillet, its chief financial officer, Reuters reports.

Mr Trouillet said the company might cut its yearly dividend by 10 per cent in 1990 due to expected lower earnings. In 1989 the group paid an annual dividend of FF38.75 per share. He said that while the company would not reach its target of 15 per cent earnings per share growth in 1990, it expected that goal to be reached by 1992 or 1993 due to its recent acquisitions.

Mr Trouillet said the fall in earnings was mainly due to lower profits in its Brazilian business and currency differences. He also cited charges from the company's acquisitions including the 68 per cent interest in Rorer of the US. He said the company's divestiture plan was continuing.

Piaggio takes 26% stake in India's LML

By Haig Simonian in Milan

PIAGGIO, the Italian engineering company which makes Vespa scooters, has taken a 26 per cent stake in LML, the quoted Indian motor-scooter maker, as part of a joint venture to develop the production of two- and three-wheeled vehicles in India.

The Italian company, which has had a 5 per cent interest in LML since October 1989, is paying about \$5m for the additional shares, which will come from a special capital increase reserved for Piaggio.

LML, based in Kanpur, has produced a variety of Vespa models under licence since 1982. It accounts for 20 to 25 per cent of the Indian market in motor-scooters.

Mr Gaetano Deagari, Piaggio's chairman, said the deal would allow the Italian company to expand in India and in conjunction with LML, encourage exports to other markets in south-east Asia and Africa.

Notice to Lombard Depositors

The following interest rates will apply from 8th October 1990

14 DAYS NOTICE Minimum initial deposit £5,000

When the balance is £5,000 and above

13.500% PA | 10.530% PA | 14.040% PA

When the balance is below £5,000

11.500% PA | 8.970% PA | 11.960% PA

Interest is credited quarterly

CHEQUE SAVINGS ACCOUNTS Minimum initial deposit £1,000

When the balance is £5,000 and above

11.500% PA | 8.970% PA | 11.960% PA

When the balance is £1,000 up to £4,999

9.500% PA | 7.410% PA | 9.880% PA

Interest is credited quarterly

Lombard The Complete Finance Service

Deposit Accounts Lombard North Central PLC

25 Abchurch Lane, London EC4N 3DF

020 7480 1000

020 7480 1001

020 7480 1002

020 7480 1003

020 7480 1004

020 7480 1005

020 7480 1006

020 7480 1007

020 7480 1008

020 7480 1009

020 7480 1010

020 7480 1011

020 7480 1012

020 7480 1013

020 7480 1014

020 7480 1015

020 7480 1016

020 7480 1017

020 7480 1018

020 7480 1019

020 7480 1020

020 7480 1021

020 7480 1022

020 7480 1023

020 7480 1024

020 7480 1025

020 7480 1026

020 7480 1027

020 7480 1028

020 7480 1029

020 7480 1030

020 7480 1031

020 7480 1032

020 7480 1033

020 7480 1034

020 7480 1035

020 7480 1036

020 7480 1037

020 7480 1038

020 7480 1039

020 7480 1040

020 7480 1041

020 7480 1042

020 7480 1043

020 7480 1044

020 7480 1045

020 7480 1046

020 7480 1047

020 7480 1048

020 7480 1049

020 7480 1050

020 7480 1051

020 7480 1052

020 7480 1053

020 7480 1054

020 7480 1055

020 7480 1056

020 7480 1057

020 7480 1058

020 7480 1059

020 7480 1060

020 7480 1061

020 7480 1062

020 7480 1063

020 7480 1064

020 7480 1065

020 7480 1066

020 7480 1067

020 7480 1068

020 7480 1069

020 7480 1070

020 7480 1071

020 7480 1072

020 7480 1073

020 7480 1074

020 7480 1075

020 7480 1076

020 7480 1077

020 7480 1078

020 7480 1079

020 7480 1080

020 7480 1081

020 7480 1082

020 7480 1083

020 7480 1084

020 7480 1085

020 7480 1086

020 7480 1087

020 7480 1088

020 7480 1089

020 7480 1090

020 7480 1091

020 7480 1092

020 7480 1093

020 7480 1094

020 7480 1095

020 7480 1096

020 7480 1097

020 7480 1098

020 7480 1099

020 7480 1100

020 7480 1101

020 7480 1102

020 7480 1103

020 7480 1104

020 7480 1105

020 7480 1106

020 7480 1107

020 7480 1108

020 7480 1109

020 7480 1110

020 7480 1111

020 7480 1112

020 7480 1113

020 7480 1114

020 7480 1115

020 7480 1116

020 7480 1117

020 7480 1118

020 7480 1119

020 7480 1120

020 7480 1121

020 7480 1122

020 7480 1123

020 7480 1124

020 7480 1125

020 7480 1126

020 7480 1127

020 7480 1128

020 7480 1129

020 7480 1130

020 7480 1131

020 7480 1132

020 7480 1133

020 7480 1134

020 7480 1135

020 7480 1136

020 7480 1137

020 7480 1138

020 7480 1139

020 7480 1140

020 7480 1141

020 7480 1142

020 7480 1143

020 7480 1144

020 7480 1145

020 7480 1146

020 7480 1147

020 7480 1148

020 7480 1149

020 7480 1150

020 7480 1151

020 7480 1152

020 7480 1153

020 7480 1154

020 7480 1155

</

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Few will celebrate yet on base rate cut

TODAY'S cut in interest rates will save debt-strapped British companies millions of pounds in interest charges. But, with bank base rates still at 14 per cent, few will be celebrating.

However, sterling's membership of the exchange rate mechanism of the European Monetary System may suggest to some companies a way of reducing interest charges by borrowing in D-Marks.

After the peseta joined the ERM, Spanish companies did just that, further exaggerating the inflows of capital that have proved such a headache for the Spanish authorities.

Spain's companies were further encouraged to borrow abroad by the relatively expensive credit being provided by their domestic banks, partly because they are required to hold a certain amount of assets with the central bank.

Although this does not apply in the UK case, companies that do not feel a sterling devaluation in the ERM is imminent may well take the view that short-term borrowing in D-Marks are not too risky.

Credit worries in both the US and UK have led the world's commercial paper markets to focus even more carefully on credit risk, and many lesser credits now find the commercial paper markets closed to them. But it is easy to forget that for many companies, these markets offer an important source of funding.

Booker, the UK food and agricultural concern most widely known for its sponsorship of the eponymous literary prize, has just relaunched its sterling commercial paper programme. The £150m programme contains two interesting features. The programme has been run by Barclays de Zoete Wedd, Midland Montagu and NatWest Capital Markets — underlining the increasing importance of UK clearing banks in sterling CP markets.

Also, probably for the first time in a sterling CP programme, Booker will pay its banks fixed fees for placing the paper. Instead of expecting them to make a "turn" out of the difference between the buy-in price and the selling price.

Fixed fees are usual in the US market, but have not made much of an impact into the

Eurocommercial paper and sterling CP markets.

That may change however, as competition among banks in the CP markets dwindles and, as in these difficult times, companies become more concerned about their relationships with banks.

Starting, the US subsidiary of Ratners, the UK jewellers, has launched a \$300m revolving credit facility. Ratners, which bought Sterling in 1987, is in the process of completing its acquisition of Kay Jewellers, but the revolver is not related to either acquisition.

The three-year facility pays a margin of 25 basis points over the London interbank offered rate for the first 50 per cent of the borrowing; if more than 50 per cent of the facility is taken up, the margin rises to 35 basis points above the interbank rate. The commitment fee is 1/4 per cent.

Chase Investment Bank and Barclays Bank are joint arrangers of the transaction, with Barclays also acting as agent. Front end fees are 10 basis points for lead managers, invited for \$25m each, and 7 1/2 basis points for managers, at \$15m apiece. The facility is guaranteed by the Ratners Group. If the consolidated interest cover of Ratners falls below four to one, the margin rises by 1/4 point and the commitment fee by 1/4 point. The facility may be drawn by Sterling and any of its subsidiaries, and by Kay, once the acquisition is completed.

Cassa di Risparmio di Roma has signed an agreement for a €300m term loan through Manufacturers Hanover, bringing to €500m the funds raised in the market this year.

The banking group, the fifth largest in Italy, is paying 25 basis points over Libor for the 12m. Last repayment will be in 12 years time.

In Scandinavia, a credit for Veitiluo Oy of Finland, arranged by Mitsubishi Bank and Union Bank of Finland, has been increased to \$100m.

Swedish National Westminster, Amsterdam-Rotterdam, Industrial Bank of Japan and Svenska Handelsbanken are arranging a credit for Svenska Cellulosa.

Stephen Fidler and Tracy Corrigan

JUNK BONDS

Traders contend with the good, the bad and the ugly

AUGUST and September were the worst months ever for the US junk bond market. Absolute bond yields are at an all-time high, as are yield margins relative to US Treasuries.

Since Iraq's invasion of Kuwait, Salomon Brothers Composite High-Yield Index fell 4.72 per cent in August and 5.91 per cent in September.

The Middle East crisis appears to have triggered the latest plunge by bringing to the forefront concerns about economic recession, a harbinger of doom for junk bonds (debt issued by sub-investment grade, often highly leveraged companies). On average, junk bonds are now yielding around 18 1/2 per cent, and the yield spread over treasuries has widened about 200 basis points to 1,000 basis points.

The timing of the market, crystallised by the demise of junk bond firm Drexel Burnham Lambert, has accelerated further.

"It's the good, the bad and the ugly," said Mr Ken Monaghan, director of research at Salomon Brothers International.

Salomon's "safest of high-yields" portfolio consisting of higher quality names such as Time Warner and Safeway outperformed the rest of the market. These companies are generally less leveraged, often because the debt is not the product of leveraged buy-outs or recapitalisations.

There has also been increasing differentiation between sectors, with heavy industry and casinos highly vulnerable, while energy and diversified consumer companies have proved more resilient.

The scale of recent losses seems to have changed investors' perception of high-yield products once and for all. Much of the debt is now trading like equity, creating fresh investment opportunities.

An instrument which yields

15 per cent is clearly a debt instrument. A 30 per cent yield tells you that payments and redemption may not be timely and that has to be treated as an equity-type investment," observed Mr Monaghan.

Bondholders know that their obligations stand to be paid off first and they hold a strong suit if a company is forced to renegotiate its debt.

Several large funds have been put together over the past few months. For example, Goldman Sachs recently completed a \$783m fund to invest in the debt of distressed companies. Unlike some other funds, Water Street Corporation Recovery Fund can buy bank debt as well as junk bonds.

"Our interest is in persuading a company to restructure in a way that is profitable for the fund's investors," said Mr Michael Salovey, the Goldman partner in charge of the fund. This may mean that new

debt or equity is issued in place of junk bonds, or that the bonds are redeemed.

A series of funds is now being developed, mainly by institutions and large private investors rather than investment banks, to play on various aspects of investment in distressed companies.

Another way of investing in the junk bond market is through collateralised bond obligations (CBOs), a number of which are also said to be in the works.

A portion of equity is used as collateral to borrow a large portion of the funds which go to create a junk bond portfolio. The interest flow from the bonds pays the interest on the loan, while any surplus is pocketed by the equity investor.

Any losses on the portfolio, however, are absorbed by the equity portion.

For traders, too, there have been opportunities. Some have tried to take advantage of the

market's weakness by shorting issues, although this has been a difficult exercise in a market which is tough to trade at the best of times.

According to Mr Robert Long, a managing director of First Boston, a new type of investor has entered the market, while traditional buyers are sidelined.

"Money is coming out of equity into high-yield debt (of a particular company) because bonds rank above shares," said Mr Long.

The possibility of a credit crunch adds to the complexities of choosing which junk bond to buy. Some companies generating more than adequate cash flows now will need to refinance their debt through bank loans in two or three years.

"We are telling clients to stay away from companies which will need to refinance one investment banker said, because of the high risk that

banks will be unwilling to lend.

The fact is that the market remains crowded with pitfalls. "You have to be able to sort out the gold from the fool's gold," said Mr Salovey of Goldman.

Tracy Corrigan

EUROMARKET TURNOVER (\$m)

| Primary Market | Structure | Deal | Size | Other |
|------------------|-----------|---------|---------|----------|
| US\$ | 2,759.4 | 0 | 230.8 | 13,757.3 |
| Yen | 1,023.2 | 0 | 5,618.0 | 14,724.5 |
| DM | 1,750.1 | 0 | 0 | 1,440.1 |
| Other | 1,750.1 | 0 | 0 | 1,440.1 |
| Secondary Market | | | | |
| US\$ | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| Yen | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| DM | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| Other | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| Total | 22,796.7 | 1,750.3 | 1,408.3 | 23,336.7 |
| US\$ | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| Yen | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| DM | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |
| Other | 20,047.3 | 94.9 | 1,408.3 | 9,887.1 |

Week to October 4, 1990 SOURCE: AFRD

NEW INTERNATIONAL BOND ISSUES

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|---------------------------|-----------|----------|----------------|----------|---------|-------------------------|---------------|
| US DOLLARS | | | | | | | |
| Shimano Industrial | 200 | 1994 | 4 | 8 | 100 | Nikko Secs.(Europe) | 5.000 |
| Energie Beheer Nederland | 300 | 1995 | 5 | 8 1/4 | 98 1/4 | Morgan Stanley Int. | 9.064 |
| Shinsei Electric | 110 | 1994 | 4 | 8 1/4 | 100 | Nomura Int. | 5.000 |
| Naturel Co. | 50 | 1994 | 4 | 8 1/4 | 100 | Daiwa Europe | 5.000 |
| Nippon Steel | 150 | 1994 | 4 | 8 | 100 | Yamachiji Int. | 5.000 |
| Nat. Westminster Bank | 250 | 2000 | 10 | (a) | 100 | Salomon Bros. | - |
| EBI (n) | 55,518 | 2000 | 18 | (n) | 100 | JP Morgan Bros. | - |
| Mitsubishi Capital | 10 | 2000 | (n) | (n) | 102 | Mitsubishi Fin. | - |
| Mitsubishi Capital | 5 | 2000 | (n) | (n) | 102 | Mitsubishi Fin. | - |
| Mitsubishi Capital | 25 | 2000 | (n) | (n) | 100.30 | Mitsubishi Fin. | - |
| Nippon Columbia Co. | 100 | 1994 | 4 | 8 | 100 | Nomura Int. | 5.000 |
| Finland Exp. Corp. | 300 | 1993 | 3 | 8 1/4 | 101.17 | Morgan Stanley Int. | 5.282 |
| AUSTRALIAN DOLLARS | | | | | | | |
| IBM Australia | 75 | 1993 | 3 | 14 | 101.85 | Westpac | 13.172 |
| NEW ZEALAND DOLLARS | | | | | | | |
| Shell Australia | 60 | 1994 | 4 | 14 | 102 | Hambros Bk | 13.323 |
| D-MARKS | | | | | | | |
| Nippon Steel Co. | 180 | 1994 | 4 | 8 1/4 | 100 | Deutsche Bk | 5.280 |
| SWISS FRANCES | | | | | | | |
| Sintologie Ltd | 60 | 1995 | - | 4 1/4 | 100 | Bank Leu | 4.750 |
| SNT Corp | 40 | 1995 | - | 5 | 100 | Handelsbank Nederland | 5.000 |
| Selren Co | 120 | 1995 | - | 5 | 100 | Bank Leu | 5.000 |
| Europacredit Hypothek | 50 | 1994 | - | 7 1/2 | 100 | Deutsche Bk (Switz) | 7.240 |
| Fujikura Rubber | 30 | 1995 | - | 8 | 100 | Nomura (Switz) | 5.000 |
| Canon Copier | 60 | 1994 | - | 8 | 100 | Bca.D/Svizzera Italiana | 4.988 |
| Footwork Int. | 100 | 1995 | - | 8 1/2 | 100 | Bca.D/Svizzera Italiana | 8.875 |
| Endreco Lagergesellschaft | 55 | 1997 | - | 7 1/4 | 101 1/4 | Wirtschaft & Privatb. | 7.018 |
| ANA Real Estate | 52 | 1995 | - | 4 1/4 | 100 | Nikko (Switz) | 4.875 |
| Okura & Co | 60 | 1995 | - | 5 | 100 | Yamachiji Bk (Switz) | 5.000 |
| YEN | | | | | | | |
| Republic of Italy | 1bn | 2005 | 15 | (r) | 100 | Boc. di Roma | - |

| Borrowers | Amount m. | Maturity | Av. life years | Coupon % | Price | Book runner | Offer yield % |
|-------------------------|-----------|----------|----------------|----------|---------|-----------------------------|---------------|
| STERLING | | | | | | | |
| Asea Finance | 73 | 2005 | 15 | 10 1/4 | 100 | SG Warburg Secs | 10.750 |
| Halifax Bldg.Society | 250 | 1997 | 7 | (a) | 100 | Warburg Secs. | - |
| CMS Co. | 225 | 2027 | 37 | (a) | 100 | JP Morgan | - |
| PESEETAS | | | | | | | |
| EBI (n) | 10bn | 1995 | 5 | 14.35 | 101 | Banesto | 14.050 |
| LIBRE | | | | | | | |
| Export Devt.Corp Canada | 150bn | 1993 | 3 | 12 1/4 | 101 1/4 | I.Bancario d'Paoletti | 12.228 |
| DANISH KRONER | | | | | | | |
| Kreditetk Int.Fin. | 300 | 1995 | 5 | 10 1/4 | 102 | Kreditbank NV | 10.219 |
| Fin.Danish Int. | 300 | 1993 | 3 | 10 1/4 | 101 1/4 | Kreditbank NV | 10.048 |
| YEN | | | | | | | |
| Okobank | 18bn | 2000 | 10 | (f) | 100 1/4 | Bk of Tokyo Cap.Mkts | - |
| Skopbank | 3bn | 1999 | 8 1/2 | (g) | 81 1/4 | Kankaku Corp. | - |
| Unibank | 1.5bn | 1992 | 2 | 8 | 101 1/4 | Nippon Credit Int. | 8.388 |
| LUXEMBOURG FRANCES | | | | | | | |
| Volvo Finance | 500 | 1993 | 3 | 10 1/4 | 101 1/4 | BGL | 9.527 |
| Postbank | 750 | 1993 | 5.418 | 10 1/4 | 101.35 | Credit Europeen | 9.591 |
| Skopbank | 300 | 1993 | 10 1/4 | 10 1/4 | 101.35 | BOCE | 8.428 |
| Banque Indosuez | 300 | 1999 | 5 1/2 | 10 1/4 | 102 | Banque Indosuez (Lux.) | 8.612 |
| Universite de Quebec | 1bn | 1995 | 5 | 10 1/4 | 102 | BGL | 9.603 |
| CL Belgium Fin. | 300 | 1995 | 5 | 10 | 101.70 | Skid Credit Lyonnais (Lux.) | 9.557 |
| Med.Lloyd Bank | 500 | 1993 | 3 | 10 1/4 | 101.35 | BGL | 8.897 |

Non-Private placement. Convertible. With equity warrants. Offering rate notes. Variable rate notes. Fixed terms. At Put option 31/12/92 110 1/4 % to yield 8.541%. Conversion premium fixed at 2.50%. Fully fungible with existing Libor rate from October 1990. Non-callable. (a) Issue scheduled 20/10/90. Amount increased from £100m. Non-callable. (b) Put option 31/12/95 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (c) Put option 31/12/98 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (d) Put option 31/12/99 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (e) Put option 31/12/00 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (f) Put option 31/12/01 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (g) Put option 31/12/02 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (h) Put option 31/12/03 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (i) Put option 31/12/04 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (j) Put option 31/12/05 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (k) Put option 31/12/06 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (l) Put option 31/12/07 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (m) Put option 31/12/08 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (n) Put option 31/12/09 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (o) Put option 31/12/10 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (p) Put option 31/12/11 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (q) Put option 31/12/12 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (r) Put option 31/12/13 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (s) Put option 31/12/14 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (t) Put option 31/12/15 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (u) Put option 31/12/16 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (v) Put option 31/12/17 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (w) Put option 31/12/18 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (x) Put option 31/12/19 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (y) Put option 31/12/20 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (z) Put option 31/12/21 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (aa) Put option 31/12/22 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ab) Put option 31/12/23 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ac) Put option 31/12/24 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ad) Put option 31/12/25 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ae) Put option 31/12/26 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (af) Put option 31/12/27 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ag) Put option 31/12/28 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ah) Put option 31/12/29 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ai) Put option 31/12/30 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (aj) Put option 31/12/31 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ak) Put option 31/12/32 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (al) Put option 31/12/33 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (am) Put option 31/12/34 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (an) Put option 31/12/35 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ao) Put option 31/12/36 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ap) Put option 31/12/37 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (aq) Put option 31/12/38 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ar) Put option 31/12/39 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (as) Put option 31/12/40 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (at) Put option 31/12/41 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (au) Put option 31/12/42 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (av) Put option 31/12/43 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (aw) Put option 31/12/44 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ax) Put option 31/12/45 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ay) Put option 31/12/46 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (az) Put option 31/12/47 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ba) Put option 31/12/48 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bb) Put option 31/12/49 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bc) Put option 31/12/50 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bd) Put option 31/12/51 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (be) Put option 31/12/52 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bf) Put option 31/12/53 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bg) Put option 31/12/54 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bh) Put option 31/12/55 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bi) Put option 31/12/56 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bj) Put option 31/12/57 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bk) Put option 31/12/58 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bl) Put option 31/12/59 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bm) Put option 31/12/60 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bn) Put option 31/12/61 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bo) Put option 31/12/62 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bp) Put option 31/12/63 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bq) Put option 31/12/64 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (br) Put option 31/12/65 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bs) Put option 31/12/66 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bt) Put option 31/12/67 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bu) Put option 31/12/68 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bv) Put option 31/12/69 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bw) Put option 31/12/70 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bx) Put option 31/12/71 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (by) Put option 31/12/72 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (bz) Put option 31/12/73 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ca) Put option 31/12/74 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (cb) Put option 31/12/75 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (cc) Put option 31/12/76 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (cd) Put option 31/12/77 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (ce) Put option 31/12/78 100 1/4 % to yield 8.552%. Conversion premium fixed at 2.50%. (cf) Put option 31/12

C
I
D:

| FRANCE (continued) | | | | | | | | | |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1990 | 1990 | 1990 | 1990 | 1990 | 1990 | 1990 | 1990 | 1990 | 1990 |
| High | Low | High | Low | High | Low | High | Low | High | Low |
| 1,200 | 1,150 | 1,250 | 1,200 | 1,300 | 1,250 | 1,350 | 1,300 | 1,400 | 1,350 |
| 1,400 | 1,350 | 1,450 | 1,400 | 1,500 | 1,450 | 1,550 | 1,500 | 1,600 | 1,550 |
| 1,600 | 1,550 | 1,650 | 1,600 | 1,700 | 1,650 | 1,750 | 1,700 | 1,800 | 1,750 |
| 1,800 | 1,750 | 1,850 | 1,800 | 1,900 | 1,850 | 1,950 | 1,900 | 2,000 | 1,950 |
| 2,000 | 1,950 | 2,050 | 2,000 | 2,100 | 2,050 | 2,150 | 2,100 | 2,200 | 2,150 |
| 2,200 | 2,150 | 2,250 | 2,200 | 2,300 | 2,250 | 2,350 | 2,300 | 2,400 | 2,350 |
| 2,400 | 2,350 | 2,450 | 2,400 | 2,500 | 2,450 | 2,550 | 2,500 | 2,600 | 2,550 |
| 2,600 | 2,550 | 2,650 | 2,600 | 2,700 | 2,650 | 2,750 | 2,700 | 2,800 | 2,750 |
| 2,800 | 2,750 | 2,850 | 2,800 | 2,900 | 2,850 | 2,950 | 2,900 | 3,000 | 2,950 |
| 3,000 | 2,950 | 3,050 | 3,000 | 3,100 | 3,050 | 3,150 | 3,100 | 3,200 | 3,150 |
| 3,200 | 3,150 | 3,250 | 3,200 | 3,300 | 3,250 | 3,350 | 3,300 | 3,400 | 3,350 |
| 3,400 | 3,350 | 3,450 | 3,400 | 3,500 | 3,450 | 3,550 | 3,500 | 3,600 | 3,550 |
| 3,600 | 3,550 | 3,650 | 3,600 | 3,700 | 3,650 | 3,750 | 3,700 | 3,800 | 3,750 |
| 3,800 | 3,750 | 3,850 | 3,800 | 3,900 | 3,850 | 3,950 | 3,900 | 4,000 | 3,950 |
| 4,000 | 3,950 | 4,050 | 4,000 | 4,100 | 4,050 | 4,150 | 4,100 | 4,200 | 4,150 |
| 4,200 | 4,150 | 4,250 | 4,200 | 4,300 | 4,250 | 4,350 | 4,300 | 4,400 | 4,350 |
| 4,400 | 4,350 | 4,450 | 4,400 | 4,500 | 4,450 | 4,550 | 4,500 | 4,600 | 4,550 |
| 4,600 | 4,550 | 4,650 | 4,600 | 4,700 | 4,650 | 4,750 | 4,700 | 4,800 | 4,750 |
| 4,800 | 4,750 | 4,850 | 4,800 | 4,900 | 4,850 | 4,950 | 4,900 | 5,000 | 4,950 |
| 5,000 | 4,950 | 5,050 | 5,000 | 5,100 | 5,050 | 5,150 | 5,100 | 5,200 | 5,150 |
| 5,200 | 5,150 | 5,250 | 5,200 | 5,300 | 5,250 | 5,350 | 5,300 | 5,400 | 5,350 |
| 5,400 | 5,350 | 5,450 | 5,400 | 5,500 | 5,450 | 5,550 | 5,500 | 5,600 | 5,550 |
| 5,600 | 5,550 | 5,650 | 5,600 | 5,700 | 5,650 | 5,750 | 5,700 | 5,800 | 5,750 |
| 5,800 | 5,750 | 5,850 | 5,800 | 5,900 | 5,850 | 5,950 | 5,900 | 6,000 | 5,950 |
| 6,000 | 5,950 | 6,050 | 6,000 | 6,100 | 6,050 | 6,150 | 6,100 | 6,200 | 6,150 |
| 6,200 | 6,150 | 6,250 | 6,200 | 6,300 | 6,250 | 6,350 | 6,300 | 6,400 | 6,350 |
| 6,400 | 6,350 | 6,450 | 6,400 | 6,500 | 6,450 | 6,550 | 6,500 | 6,600 | 6,550 |
| 6,600 | 6,550 | 6,650 | 6,600 | 6,700 | 6,650 | 6,750 | 6,700 | 6,800 | 6,750 |
| 6,800 | 6,750 | 6,850 | 6,800 | 6,900 | 6,850 | 6,950 | 6,900 | 7,000 | 6,950 |
| 7,000 | 6,950 | 7,050 | 7,000 | 7,100 | 7,050 | 7,150 | 7,100 | 7,200 | 7,150 |
| 7,200 | 7,150 | 7,250 | 7,200 | 7,300 | 7,250 | 7,350 | 7,300 | 7,400 | 7,350 |
| 7,400 | 7,350 | 7,450 | 7,400 | 7,500 | 7,450 | 7,550 | 7,500 | 7,600 | 7,550 |
| 7,600 | 7,550 | 7,650 | 7,600 | 7,700 | 7,650 | 7,750 | 7,700 | 7,800 | 7,750 |
| 7,800 | 7,750 | 7,850 | 7,800 | 7,900 | 7,850 | 7,950 | 7,900 | 8,000 | 7,950 |
| 8,000 | 7,950 | 8,050 | 8,000 | 8,100 | 8,050 | 8,150 | 8,100 | 8,200 | 8,150 |
| 8,200 | 8,150 | 8,250 | 8,200 | 8,300 | 8,250 | 8,350 | 8,300 | 8,400 | 8 |

[illegible][illegible]

هكذا صنع القوم

● For Current Unit Trust Prices on any telephone ring direct-0838 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

| | | | |
|-------------------------|---------|-------|---|
| Foreign Currency, | \$10.37 | 10.41 | - |
| International Bond ... | \$10.25 | 10.27 | - |

● For Current Unit Trust Prices on any telephone ring direct-0888 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak. Inc VAT

[illegible][illegible]

MONEY MARKET FUNDS

BANKS, HP & LEASING

BUILDING, TIMBER, ROADS

ELECTRICALS – Contd

ENGINEERING—Contd

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.) – Contd.

BEERS, WINES & SPIRITS

BRADERY AND STORES

| | | | | |
|--------------------------|------|------|------|------|
| Westac Sp..... | 7.7 | -2.7 | 3.7 | 28.3 |
| Westwick Sp..... | 3.1 | 3.1 | 6.1 | 30.4 |
| Weston Tlwr Co. Co. Inc. | -7.7 | -7.7 | 16.1 | 25.6 |

| | | | | |
|----------------|-----|----|-----|------|
| Parham 12 hp.. | 21 | 47 | 3.2 | 14.5 |
| RMH... | 300 | 12 | 3.5 | 29.5 |
| RMH... | 91 | 15 | 2.8 | - |

| | | | | | |
|-----------------|-----|------|-----|----|-----------|
| 175.2 Do "B" | 121 | -1.4 | 0.9 | - | May |
| 5.06 Kala Homa | 4 | | | 94 | Jan-Jul |
| 157.2 Kala Homa | 157 | | | 97 | Feb. Aug. |

| | | | | | | |
|-----|------------------------|-----|-----|------|------|-----|
| 004 | 37.30 Do 54 pc Cerkoff | 7.3 | 8.5 | 11.6 | John | 199 |
| 006 | 37.37 Williams W J | 11 | 6.1 | 15.1 | May | 200 |
| | 0.63 Mills Group | 7 | | 11.4 | May | 201 |

BUILDING, TIMBER, ROADS

| | | | | | |
|----------------------------|----|------|------|------|---|
| 49.8 Empire Stores Corp... | 86 | 1.2 | 0.2 | 20.8 | F |
| 1.97 Empire Furniture Sp. | 23 | | 10.9 | 26.2 | M |
| 47.0E:ann 10n | 73 | 16.1 | | 29.5 | J |

| | | | | |
|----------------------|-----|-----|-----|------|
| THORN EMI | 615 | 4.8 | 6.5 | 9.7 |
| Del 7pc Cr Pt '92-99 | 151 | 2.7 | 6.2 | 11.6 |

| | | | | |
|-------------------|----|------|-----|------|
| Resort Hotels 100 | 44 | -1.1 | 4.7 | 6.8 |
| Ryan Hotels & Sp. | 67 | | 2.1 | 29.5 |
| Savoy "A" 100 | | | | |

| | | | | | | |
|-----|---------------------|-----|-------|-----|------|----------|
| 649 | 1974-June Strategic | 100 | 2.0 | 2.7 | 20.8 | Oct. May |
| 75 | Johnson Clemens | 395 | | 8.7 | 20.8 | Oct. May |
| 365 | Johnson Matthew El | 200 | 3.1 | 5.7 | 25.6 | Feb Aug |

| | | | | | |
|------|-----------------------------|--------|------|------|-----------|
| 0000 | 04 Hogg Group..... | 1.00 | 7.8 | 30.4 | Dec. June |
| 0001 | 1913 Legal & General... | 397.00 | 10.3 | 5.3 | 24.9 |
| 0002 | 02 40 Lincoln Nat Cde | 22.00 | 2.2 | 6.0 | 4.7 |

| | | | |
|------------------|----|------|----------|
| Howard Hughes | 87 | 20.8 | Oct 1966 |
| Walter J. Rorick | 87 | 30.4 | Dec 1966 |
| Du Vietnam | 17 | - | - |

ELECTRICALS

| | | | | |
|-------------------------|----|------|----|------|
| St. Johnson Sp..... | 10 | -4.8 | 7 | 3.7 |
| St. Joseph's Group... | 61 | -7.6 | 78 | 11.6 |
| St. Lawrence Group..... | 71 | -1.6 | 75 | 20.8 |

| | | | | |
|---------------------------|-----|-------|------|------|
| 0.6/Black (P) Hldgs... | 104 | 3.0 | 3.6 | 10.4 |
| 0.2/Blackbird Toys 10p... | 52 | | 17.3 | 3.89 |
| 0.6/Bodycode Intl... | 283 | | 5.3 | 9.4 |

| | | | | | | |
|------|------------------------|-----|-------|------|------|---------|
| 42.5 | Porter Cladhorn Sp. M | 75 | 1.4 | 3.9 | 23.7 | Apr Oct |
| 4.4 | Porth Group Sp. M | 38 | ----- | 20.0 | 9.4 | Dec Mar |
| 17 | Perimicos Patts. Sp. M | 183 | -2.7 | 4.4 | 20.8 | Oct Mar |

| | | | | |
|------|---------------------------|------|------|-----------|
| 37.9 | 24 Oct. 9.75p Cr. Rd. Pl. | 15.3 | 20.8 | April Oct |
| 6.10 | 24 Oct. 9.75p Cr. Rd. Pl. | 17 | 29.2 | Jan May |

1. *Chlorophyll a* and *Chlorophyll b* were determined by the method of Arar and Collins (1971) using a Shimadzu 1010 spectrophotometer. The concentration of chlorophylls was expressed as $\mu\text{g mL}^{-1}$ of the sample.

هكذا صنع القوم

LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0836 43 or four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES

Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Garages and Distributors

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

NEWSPAPERS, PUBLISHERS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

PAPER, PRINTING, ADVERTISING

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

PROPERTY

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

PROPERTY - Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

SHOES AND LEATHER

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

SOUTH AFRICANS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

TEXTILES

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

TOBACCO

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

TRANSPORT

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

INVESTMENT TRUST

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

INVESTMENT TRUST - Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

FINANCE, LAND, ETC

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

WATER

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

OIL AND GAS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

INVESTMENT TRUST - Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

FINANCE, LAND, ETC

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

WATER

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

OIL AND GAS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

OIL AND GAS - Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

OVERSEAS TRADERS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

PLANTATIONS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

MINES

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Central Rand

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Far West Rand

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Diamond and Platinum

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Central African

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

FINANCE

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Australians

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Tins

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

MINES - Contd

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

THIRD MARKET

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

NOTES

Stock exchange dealing classifications are indicated to the right of security names. A (Alpha) is shown for investment, B (Beta) for speculative, C (Gamma) for high risk, D (Delta) for high risk, E (Epsilon) for high risk, F (Feta) for high risk, G (Geta) for high risk, H (Heta) for high risk, I (Iota) for high risk, J (Jeta) for high risk, K (Keta) for high risk, L (Leta) for high risk, M (Meta) for high risk, N (Neta) for high risk, O (Oeta) for high risk, P (Peta) for high risk, Q (Qeta) for high risk, R (Reta) for high risk, S (Seta) for high risk, T (Teta) for high risk, U (Ueta) for high risk, V (Veta) for high risk, W (Weta) for high risk, X (Xeta) for high risk, Y (Yeta) for high risk, Z (Zeta) for high risk.

REGIONAL & IRISH STOCKS

The following are quoted in Irish currency. The latter being quoted in Irish currency.

IRISH

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

TRADITIONAL OPTIONS

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Industrials

| Stock | Price | Stock | Price | Stock | Price |
|-------------|-------|-------------|-------|-------------|-------|
| 10.00000000 | 1.00 | 10.00000000 | 1.00 | 10.00000000 | 1.00 |

Property

4pm prices October 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

[illegible]

Continued on Page 33

هكذا صنع القهمل

NYSE COMPOSITE PRICES

| Stock | High | Low | Open | Close | Change | Volume | Div. | Yield | High | Low | Open | Close | Change | Volume | Div. | Yield |
|-------|--------|--------|--------|--------|--------|-----------|------|-------|--------|--------|--------|--------|--------|-----------|------|-------|
| AT&T | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| IBM | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| SP500 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |

NASDAQ NATIONAL MARKET

4pm prices October 5

| Stock | High | Low | Open | Close | Change | Volume | Div. | Yield | High | Low | Open | Close | Change | Volume | Div. | Yield |
|-------|--------|--------|--------|--------|--------|-----------|------|-------|--------|--------|--------|--------|--------|-----------|------|-------|
| AT&T | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| IBM | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| SP500 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |

AMEX COMPOSITE PRICES

4pm prices October 5

| Stock | High | Low | Open | Close | Change | Volume | Div. | Yield | High | Low | Open | Close | Change | Volume | Div. | Yield |
|-------|--------|--------|--------|--------|--------|-----------|------|-------|--------|--------|--------|--------|--------|-----------|------|-------|
| AT&T | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 117.12 | 116.87 | 117.00 | 116.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| IBM | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 111.12 | 110.87 | 111.00 | 110.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| SP500 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 | 285.12 | 284.87 | 285.00 | 284.87 | -0.13 | 1,100,000 | 4.00 | 3.42 |
| ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |

Some business travellers
will change neither hotel nor newspaper. That's why they are particularly happy to find complimentary copies of the Financial Times at the following hotels in the Principality of Monaco: Hotel de Paris, Hotel Hermitage, Hotel Mirabeau, Hotel Beach Plaza, Monte-Carlo Beach, Metropole Palace Hotel, Hotel du Siècle, Hotel Aetela.

FINANCIAL TIMES

Advertise your house
in full colour in the Weekend
FT.
To find out more, call Lesley
Proctor on 071-873 4896

FINLAND

The Financial Times
proposes to publish this
survey on:
15th November 1990

For a full editorial synopsis
and advertisement details,
please contact:
Peter Sorensen, Salomonkatka
17A 20 00100 Helsinki,
Finland. Fax: 094 9498 Tel:
094 0417

or write to Chris Schamberg
or Kirsty Saunders at:
Number One
Southwark Bridge
London SE1 1UL
Tel: 071 873 3428/4823
Fax: 071 873 3079

MONDAY INTERVIEW

Mr Never Easily Outflanked

Kenneth Baker, chairman of the Conservative party, talks to Ian Hargreaves and Philip Stephens

Sometimes these things happen. Our interview with Mr Kenneth Baker began at 8.30am on Friday. That afternoon, the Chancellor announced that Britain was joining the exchange rate mechanism of the European Monetary System.

Did Mr Baker really sit through a long examination of campaign tactics, this week's party conference, Europe and his own political soul in full knowledge of this impending drama? The answer is, he did not. "We had rather steered ourselves for nothing and for a not very good RPI figure this week," he said on Saturday, although Mr Baker's interest in the topic is bound to sweeten the Bournemouth air.

Does the ERM decision alter his calculations about election timing? "I don't believe you can draw a conclusion one way or the other," he says. "There's a great deal of uncertainty."

It is not long, however, before he is doing what he does best: selling. The ERM decision, he says, "plays to the conference theme, that we are a strong and determined government."

It "could be difficult to overstate" Baker's qualities as a salesman. It costs him no visible effort to draw from his suitcase an array of carefully folded slogans before offering them to the listener as if freshly tailored with only you, sir, in mind. In Mr Baker's recently published anthology of verse parodies, there is a piece by a teacher based on Henry Reed's army life poem, "Naming of Parts. In it, the parodies of the poems of the 1930s examination system which Mr Baker's a great deal of money."

Other key lessons in his political education included Mr Heath's prices and incomes policy - "you cannot run one" - and the privatisation of British Telecom. "Privatisation is important... one's got to find ways of bringing private capital flows into those areas of the public sector that so desperately need it. Transportation is one example."

So does that make him today a fully paid up Thatcherite? Does he, like the prime minister, want to kill socialism, or to focus media attention on two untypical Tory authorities which had set a low poll tax. Last week's Conservative party political broadcast also bore the Baker stamp, listing alleged Labour hypocrites and disreputable and culminating with a visual message: socialism equals unemployment.

"Socialism is an imprisonment philosophy," says an unrepentant Mr Baker. "It's an imprisonment of the human psyche." According to a Shadow Cabinet member,

"This will be the roughest election campaign we have ever seen."

Mr Baker says: "This election will be different because it's unlikely that you will have a large middle vote... so it's important to draw out the difference between the fundamental approach we have and the approach Labour has. Labour is trying to blur these differences."

Bournemouth this week will thus see the Baker-model Tory party in full flow. There is a main theme and four sub-themes, each with a slogan, and ministers have been choreographed to their themes, which are not intended to include new promises. "It's not a manifesto conference," says the chairman.

Combined with powers of organisation, these engaging qualities make Mr Baker a good, perhaps an ideal choice as chairman. But surely there should be another dimension in a politician who aspires to the party leadership: an office for which polls suggest he is a front-runner. What, we need to know, distinguishes him politically in a crowded field?

The conversation circles. We discuss the wilderness years which followed his allegiance to Ted Heath, then the Ministry for Information Technology, remembered for a Mitterrandesque plan to plant a broad-band telecommunications system in the underdeveloped landscape of early Thatcherism.

"It will come in the next five, 10, 15, 20 years," he says, but not with government financial incentives. "One learned the hard way that that was an easy way to lose a great deal of money." Other key lessons in his political education included Mr Heath's prices and incomes policy - "you cannot run one" - and the privatisation of British Telecom. "Privatisation is important... one's got to find ways of bringing private capital flows into those areas of the public sector that so desperately need it. Transportation is one example."

So does that make him today a fully paid up Thatcherite? Does he, like the prime minister, want to kill socialism, or to focus media attention on two untypical Tory authorities which had set a low poll tax. Last week's Conservative party political broadcast also bore the Baker stamp, listing alleged Labour hypocrites and disreputable and culminating with a visual message: socialism equals unemployment.

"Socialism is an imprisonment philosophy," says an unrepentant Mr Baker. "It's an imprisonment of the human psyche." According to a Shadow Cabinet member,

Punishments that serve society

It would have taken a very bold, not to say maverick judge who would have passed anything other than sentences of immediate imprisonment on the Guinness three (Sir Jack Lyons escaped the same fate only by virtue of chronic ill-health). Yet the question may sensibly be posed: what benefit does society derive from depriving the scarce resource of imprisonment against financial malefactors who are unlikely ever to repeat their greedy dishonesty?

Imprisonment is the ultimate sanction which a civilised society applies to those offenders who commit serious crimes. For those offenders who, if at large, are a danger to others, removal from social intercourse is necessary in order to defend potential victims. For those who do not present violent propensities, but commit crimes which are inimical to the economic fabric of society, there ought to be other ways of making public their criminality without putting them in prison.

Society may well need to pronounce its disapproval of serious crime in a denunciatory fashion. Assignment of both public and private outrage is important. The ultimate sanction of imprisonment is the only instrument that can do that to the full extent. But is it necessary to incarcerate the individual offender?

The suspended sentence of imprisonment for up to two years has been with us now for 25 years. Why Mr Justice Henry did not use that sanction, at least against Sir Jack Lyons, is not immediately

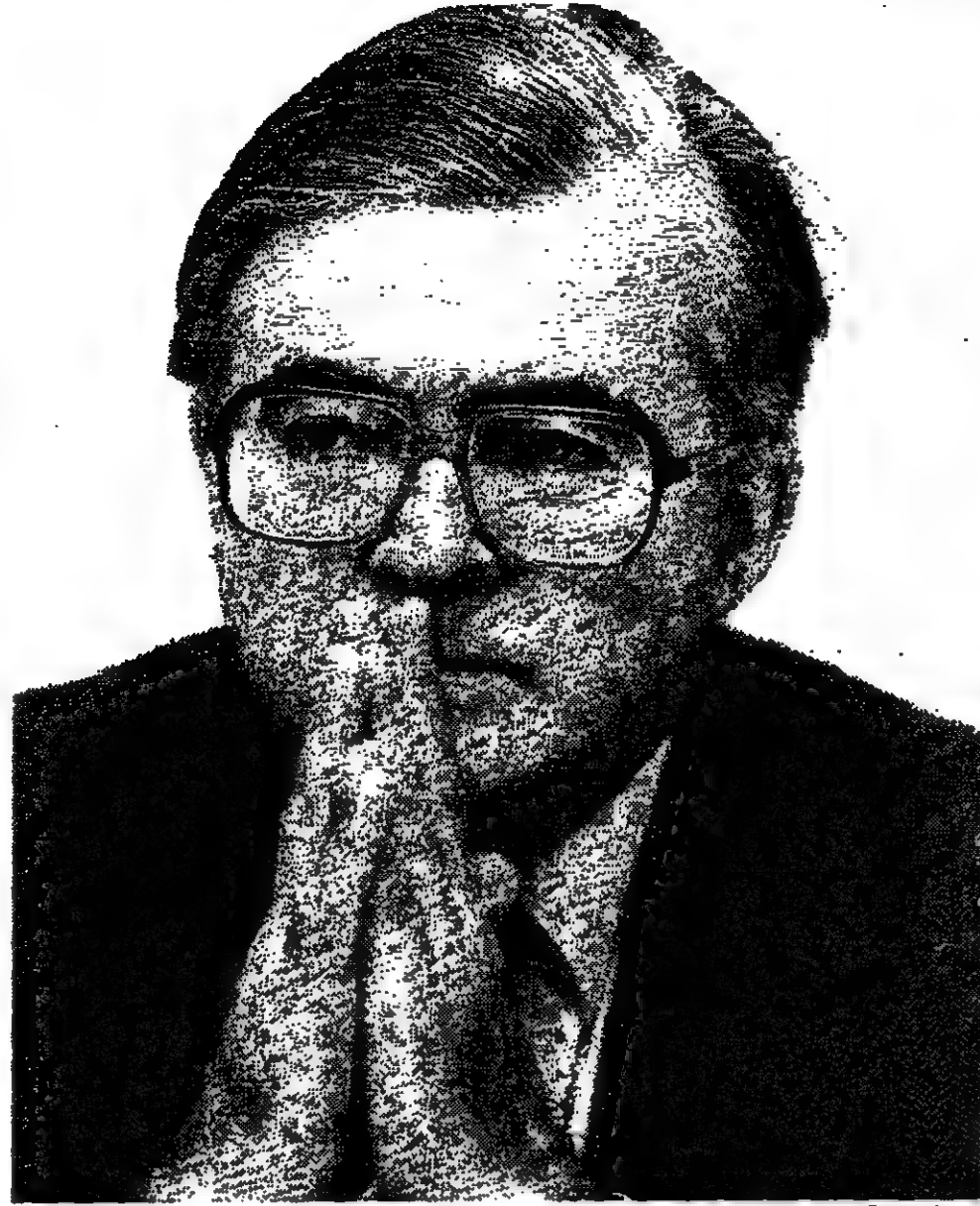


JUSTINIAN

apparent. Sir Jack's conduct as with his co-conspirators - described the mark of imprisonment; only his ill-health spared him the indignity of experiencing the prison cell.

Presumably, the judge thought that since reputation of the dishonest behaviour was improbable, if not impossible, the court was precluded from using the suspended sentence. Theoretically, that is so. But the suspended sentence has a declaratory value, whose message to the public is that the crime demands the punishment of imprisonment - a label which the offender will forever have metaphorically to wear - but does not require it to be carried out.

Not enough, the public claims. And rightly so, for these four men ought to be made, for some time, social pariahs, but by a different route. As a civilised society, we have not yet fully explored the avenues of punishment in the community. The penal system has not yet accommodated refined penalties. Could there be any objection if such offenders were deprived of a pas-



'The next election will be different'

suggests, would require a planned and pre-ordained framework and "that's not the way Conservatives look at things." This is a prologue to reminiscence about his education reforms. As you would expect he tries to wait away the point that after 11 years of Mrs Thatcher Britain's educational achievements still seriously trail those of its competitors.

PERSONAL FILE

1934 Born Newport, Educated at St Paul's and Magdalen College Oxford.
1955 Non-political career included jobs in industry with Shell, Aquascutum and Avon.
1968 Elected to Parliament. Since 1983, MP for Moit Valley.
1974-75 Parliamentary Private Secretary to Edward Heath.
1981-84 Minister for Information Technology.
1984-85 Minister for Local Government.
1985-86 Environment Secretary.
1986-89 Education Secretary.
1989-90 Chairman of the Conservative Party.

tors. Today's Tory Daily Telegraph promises a "crisis in the classroom" special report.

Look, Mr Baker, the point is this. You've been associated with all kinds of political action, some on the left of the party, some on the right. But when you make a big, thoughtful speech, like this year's Disraeli lecture, the Responsible Individual, you dart between sentimental stuff on the English character, swipes at

Labour, praise for the family and a yearning for "a community of individuals." A coherent statement of political vision. It is not. What, Mr Baker, is Bakerism?

"The thing that made me a Conservative... is summed up in that phrase 'the responsible individual': it's my belief in individual freedom and that's the guiding principle." We are then back to Edmund Burke's "little platoons," the individual, the family etc. Let's put it another way. Does the man some colleagues know as "Kenneth 'never knowingly underbid' Baker" have any policy differences with Michael Heseltine? "Michael stands closer to the interventionist side," he offers. It's the clearest political statement of the interview.

His views on Europe are also carefully hedged. "I've thought a lot more about Europe in the last few months," he says. "The community should be expanded. Poland, Czechoslovakia and Hungary should be members as soon as possible, when democracy has been established and they have moved towards market forces." He would like the missing Scandinavians in too, but balks at Turkey.

These then are some of the thoughts of chairman Baker. At one level, you cannot but admire the clever resistance to classification at a time when no one can predict the date or the form for the big leadership race. Mr Baker is not the only ambitious Cabinet member whose political stripe is being kept deliberately out of focus.

The harsher judgment is that politically he is an anthropologist rather than a leading

English poet. You would not want to read test his ideas either for originality or consistency; indeed the latter can sometimes be glaringly absent. On Saturday, for example, he was arguing that we should "make haste slowly" on European monetary union in part because Germany faces huge inflationary pressures following unification. Not the ideal point on the weekend that the pound joined the D-mark club. But if Mr Baker helps the Tories to a fourth successive victory and Mrs Thatcher goes at once, Mr Never-Easy-Outflank could still, just be the man for the hour.

Irony triumph of the US constitution

I don't see why the taxpayer should pay. We didn't do anything. I think the government should pay."

This unwitting summary of the current US crisis came from a caller to a radio talk show, and the alienation of ordinary Americans from their government could hardly be better expressed.

The budget crisis is not, as Governor Douglas Wilder of Virginia has said, a crisis between the White House and the Congress, or of Republicans against Democrats, but of Washington against the rest of the country. (Governor Wilder seems to be planning an outsider's run at the next Democratic convention, but there is nothing to stop an ambitious man from speaking the truth.)

The near-breakdown of the US political system will still probably be averted, for brinkmanship is now a normal part of the US budget process; something rather similar was going on when I arrived here in 1987. However, even if the system functions after a fashion, the outside world will still conclude that it is not capable of delivering hard decisions, except in time of economic collapse or war; and the outside world will be right.

The crisis is partly a triumph for ex-President Reagan. He persuaded a large number of Americans to believe in the nonsense called supply-side economics, so that it would be politically impossible to raise taxes; and he regarded the fiscal deficit as an important legacy, since it would enforce a real attack on the spending side of the budget.

But it is above all a triumph for the framers of the US constitution. They were so concerned to prevent a revival of what they saw as the tyranny of the British constitutional monarchy that they devised an essentially powerless system. This is not simply a matter of the checks and balances; they foresaw, as the federalist papers show, that the primacy of regional interests would lead to venality, but they regarded that as preferable to the tyranny of doctrines.

For most of the past two centuries, this has proved a pretty good trade-off; compare the



By Anthony Harris in Washington

results of the French and the American revolutions, if you doubt it. As Italy and Japan also show, a strong economy at peace can do very well without honest or effective government. However, it has now had one result which the honest tradesmen who wrote the constitution can hardly have imagined. It left the federal government with almost unlimited power to borrow.

The trouble with a debt crisis, as every bankruptcy proves, is that a resolution can always be delayed by determined wishful thinking. That was the main plank on which President George Bush won his disastrous election campaign. He has subsequently come to his senses. But many of his nominal supporters in Congress have not, or at least hope that they can win one more campaign against arithmetic. Wall Street has supported them: it refused to greet the defeat of the budget package with the collapse which Treasury Secretary Nicholas Brady had predicted only a day earlier.

That is the immediate cause of the crisis: for there is little doubt that had the Republicans supported their president, the majority of Democrats would have voted for the package too. They would have done so under protest, for it contained new tax loopholes, and placed an undue burden on the sick.

All the same, it had some real merits. It was much more

honest than any previous deficit-cutting exercise, and proposed one procedural reform of enormous potential value: all future spending proposals would have to contain matching proposals to raise new revenue. This could have done more to limit future deficits than the endlessly amended (and basically senseless) Gramm-Rudman law could ever do, and it is to be hoped that this measure survives the current horse-trading in Congress.

It is worth stressing, too, that the package was not the empty gesture that some outside critics have described. It was proposed on the brink of a recession, it came on top of a squeeze which is already being imposed in state budgets, which are severely deflationary this year, and by the savings and loan clean-up - a huge nominal expenditure which actually reduces demand. According to well-qualified judges, the \$300bn five-year programme should be enough to reduce the national debt as a proportion of GDP, and that is a great deal more than a token.

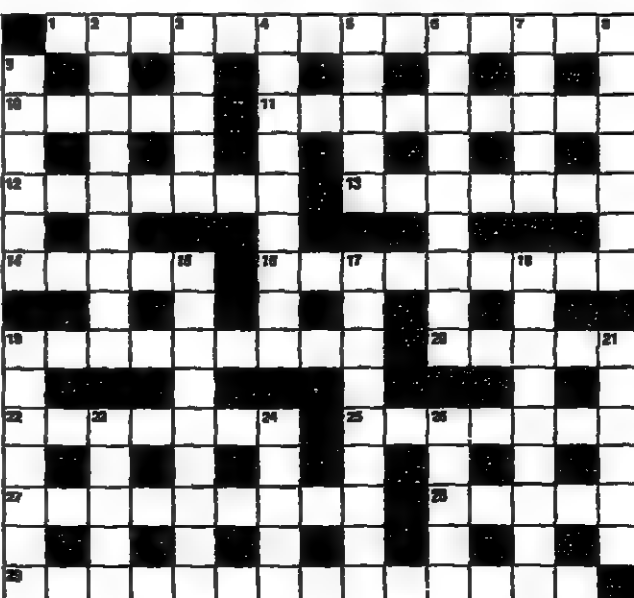
The political crisis will remain, though, even if Congress passes (and the president accepts) an equivalent package. The procedure of drafting through a secret cabal - open disagreements secretly arrived at, you might say - is obviously undesirable, and has been denounced; but it was imposed by the general reluctance of almost any politician (apart from the rock-like Congressman Dan Rostenkowski) to speak words of discomfort in public. The package was designed as a political orphan.

It also evaded three big issues which will have to be faced: the need for the rich to pay their share of any new revenue; the claims of the old, who now absorb half the total discretionary expenditure of the federal government; and the rampant waste in the now largely redundant defence programme. It will be a tragedy if the US has to wait for an inflationary debt crisis and a collapse of the dollar before the voters are willing to support men who speak the plain truth. Don't cry for me, Argentina!

JOTTER PAD

CROSSWORD

No. 7,361 Set by DANTE



- ACROSS
- 1 Position adopted by idlers in desperate straits (5,2,3,4)
 - 2 Don't take time off (5)
 - 3 I stay true to the principle of self-denial (9)
 - 4 Drag man out to see aged parent (7)
 - 5 Peak time before break (7)
 - 6 Art of piano playing (5)
 - 7 Arrange a bed and board on the borderline (9)
 - 8 Land of Hope (9)
 - 9 A substitute for medicine (5)
 - 10 Rise for the workers? (7)
 - 11 Money that's not well earned (4,3)
 - 12 Many return capital and a batch of notes (5)
 - 13 A far cry from the Tyrol (5)
 - 14 That quick prowl round to find cover (9,5)
 - 15 Place of refreshment for curious Great Dane (3,9)
 - 16 Have an oral test? (5)
 - 17 Essential spirit (9)
 - 18 A point about wood for burning (5)
 - 19 Infantile habits (7)
 - 20 Soft illumination leads to engagement (8)
 - 21 Mother superior? (9)
 - 22 The growth of a fairy-tale (5)
 - 23 Retract support on quiet deal that's been arranged (4,5)
 - 24 It unfolds and gives way (7)
 - 25 Might take in the air for a short time (5)
 - 26 Persuade an agency girl to start typing (5)
 - 27 Slow scoring rate? (5)
 - 28 An animal that's shy backs up (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 20.

Louis Blom-Cooper QC

Justinian will appear fortnightly

BusinessWeek

This week's topics:

- The Big Changes At Apple Computer
- Behind The U.S. Budget Deal
- Is Europe In For Recession?
- The Fire Sale At Saatchi & Saatchi
- Japan's Era Of Easy Money Is Over

Now available at your newsstand!

BusinessWeek International
Headquarters: 14, av. d'Odely, CH-1005 Lausanne, Tel. 41-21-677 44 11
UK toll-free number: 0800 288 137

Notice to Holders of THE MORGAN CRUCIBLE COMPANY PLC

4,462,000 Non-Refundable Depositary Warrants constituted by the Global Depositary Warrant dated 22nd July 1986 (the "1986 Depositary Warrants") and 25,000 Refundable Depositary Warrants constituted by the Global Refundable Depositary Warrant dated 6th August 1987 (the "1987 Refundable Depositary Warrants")

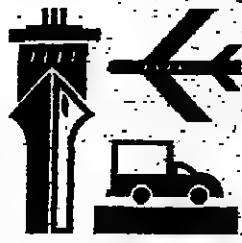
In respect of the above Warrants, notice is hereby given as follows:-
On 1st June 1990, The Morgan Crucible Company Plc announced a rights issue of 32,578,258 Ordinary Shares of 25 pence each (the "Rights Issue"). Under the Rights Issue, shares have been offered to existing holders by way of rights at a price less than the market price (as defined in each of the option agreement (the "Option Agreement") relating to the 1986 Depositary Warrants and the 1987 Refundable Depositary Warrants, and the Share Issue Agreement (the "Share Issue Agreement") relating to the 1987 Refundable Depositary Warrants. Accordingly, pursuant to Clause 7(A)(iv) of each of the Option Agreement and the Share Issue Agreement, the Subscription Price of the 1986 Depositary Warrants and the 1987 Refundable Depositary Warrants has been adjusted, with effect from the record date for the Rights Issue, which was 25th May 1990, as follows:-
The Subscription Price for the 1986 Depositary Warrants has been adjusted from 301p per Ordinary Share to 291p per Ordinary Share.
The Subscription Price for the 1987 Refundable Depositary Warrants has been adjusted from 379p per Ordinary Share to 367p per Ordinary Share.
In addition in accordance with Clause 7(D) of each of the Option Agreement and the Share Issue Agreement, additional Depositary Warrants and Refundable Depositary Warrants will be issued to each holder of Depositary Warrants and Refundable Depositary Warrants, as of record date 25th May 1990, at the rate of 0.0343641 new Depositary Warrants and 0.03288 Refundable Depositary Warrants, respectively, for each Depositary Warrant and Refundable Depositary Warrant held as of 25th May 1990. Warrants for each new Warrant will not be issued, but all such transactions will be aggregated and sold in the market. The net proceeds will be paid to the Depositary Warrant Holders and Refundable Depositary Warrant Holders entitled thereto, less their amounts of less than £2 will be returned for the benefit of the Option Holder.
The new Depositary Warrants and Refundable Depositary Warrants will be issued only through Morgan Guaranty Trust Co. of New York as Operator of the Euroclear System ("Euroclear") and Cede and Warrant Holders will be credited with their entitlement through their accounts maintained with Euroclear and Cede.

THE MORGAN CRUCIBLE COMPANY PLC
By: Chase Manhattan Bank Luxembourg S.A.

EUROPEAN DUTY FREE

SECTION III

Monday October 8 1990



Plans for a single market have prompted a battle royal over the future of duty free shopping

In Europe. David Churchill reports that the fighting remains evenly balanced and the role that the consumer plays may be crucial for the future of the industry

An industry in turmoil

THE European duty free industry is in turmoil. Will intra-community duty free shopping be banned after 1992 when a single market between the member states comes into force? Or will the concerted lobbying efforts by European airlines, airports, ferries and companies in the Scotch whisky and cigarette industries persuade Brussels to delay its proposals?

The battle looks fairly evenly balanced. Ms Christiane Scrivener, European Community taxation commissioner, made clear last month that Brussels was holding firm: "You can't have everything," she said. "You can't have a single market and still say you are going to benefit from duty free sales. That would be impossible."

But Mr John Douthwaite, secretary-general of the Duty Free Confederation, also re-affirms the industry's viewpoint. "The effects of abolishing duty free shopping after 1992 would be to everyone's detriment and nobody's benefit."

The UK arm of the sophisticated European-wide lobbying operation under way to convince member governments and the Brussels administrators that duty free should stay in force, however illogical it may seem in the face of harmonising Community tax and fiscal policies.

It is a fight where those who shop in duty free outlets have seemed to show scant concern about the threat to their access to lower-priced goods. Mobilising consumer support for their campaign is one of the objectives of the Duty Free Confederation and airport travellers especially are being targeted to build up public awareness of the threat to traditional duty free shopping.

The status quo in duty free is due for a change. While charter airlines have duty free sales techniques down to a fine art — their very livelihood is said to depend on how much duty free is sold in flight — scheduled airlines have been rather tardy in pushing sales in flight. British Airways, however, recently threw down the gauntlet to the traditional airport outlets with a £200,000 advertising campaign aimed at persuading travellers that it was cheaper to buy in-flight rather than at the airport.

Airport duty free retailing is being forced to allow in more competition as a result of pressure from the Office of Fair Trading. The OFT had received complaints about high prices at British airports and the BAA — which earns some £100m a year, about a fifth of its profits from duty free sales — has responded by allowing more competition.

An experiment will start next spring at Heathrow airport's terminal four where two duty free outlets will be operated by separate companies in an effort to give consumers wider choice. At present Alders and Trusthouse Forte dominate airport duty free sales and control 11 shops at BAA's 12 main airport terminals. Other companies, such as Debenhams and Selfridges, will be invited to compete for the new contracts. Harrods operates a shop at the newly refurbished terminal three at Heathrow.

Duty free sales are big business. World sales were estimated at some \$11.5bn in 1988, with \$3.6bn of these coming within Europe. For the airline and airport industry alone, consultants Coopers & Lybrand recently estimated that duty free goods worth £1.9bn were sold by EC airlines and airports.

How did it all start? The origins of duty free shopping are not well documented but the romantic history of duty free suggests that it started in 19th century Britain when aristocratic gentlemen, returning from the Grand Tour, claimed they needed the sustenance of wine on the journey home.

It became accepted practice to permit the import of opened bottles of wine, and this later became an unopened bottle of wine for the same purpose. In addition, the Royal Navy imported rum for distribution to crews from the 17th century onwards until the 1950s.

It was the development of manufacturing industry that led restrictions on imports, by levying duties on them, to protect domestic industries. In the 20th century, the advent of ocean-going liners provided the opportunity for high duty goods at home to be bought elsewhere at lower prices and consumed on the journey. Duty free sales evolved by custom and practice.

Modern duty free shopping

really emerged in the late 1940s as a result of the post-war expansion of civil aviation. The first duty free shop was opened in the late 1940s at Shannon airport in Ireland, followed by Prestwick in Scotland in 1951. Both these airports were important stop overs for refuelling international flights. At first it was just liquor that could be sold duty free, but these were soon followed by tobacco and perfumes.

The concept of duty free has proliferated throughout the world: Moscow's International airport, for example, has two duty free shops while a duty free service is available at Leningrad's Pulkovo airport.

The traditional duty free products of liquor, tobacco and perfumes — while still

accounting for some two-thirds of all duty free sales — are very much in decline. In their place are a variety of other products being sold, ranging from consumer electronics through to designer clothes, jewellery and watches.

Some observers of the duty free market believe that the present industry pre-occupation with the potential abolition of duty free is leading the industry astray.

"Where is the dynamism and pioneering attitude that got European duty free to the point it is today," asks Mr Colin McLoughlin, general manager of Dubai's duty free operations.

"European duty free has been confronted with problems before. But these problems



Preparing trolley loads of duty free goods before take off

have usually been resolved."

Some European duty free outlets are responding to the challenge laid down by the 1992 changes. SAS Trading, for example, this year opened Scandinavia's largest airport shopping development at Stockholm's Arlanda airport.

SAS is also developing ways of making airport shopping more hassle-free: it offers pre-flight mail order buying, for example, similar to schemes operated by charter airlines such as Denmark's Sterling Airways.

Others are taking steps to target important markets such as the Japanese leisure and business travellers. Japanese travellers, for example, only account for 5 per cent of passengers at London Heathrow airport's terminal three, but

over 95 per cent of the total spent on duty free. At Paris's international airports Japanese customers account for some 80 per cent of sales of Omega watches; Dunhill says that 50 per cent of its sales are to Japanese or Asian customers.

The problem facing duty free operations in Europe is the uncertainty of what will happen after 1992. The history of EC initiatives for Europe-wide changes is littered with compromises and ad hoc arrangements. Many fear that this will happen with the duty free area.

The most likely outcome of the present dispute between duty free operators and Brussels is some sort of compromise. At best this will mean a delay of several years before duty free is finally abandoned, giving the industry time to come to terms with developing shopping initiatives to counteract the loss of mainstream duty free volume sales from liquor and tobacco products.

The industry is supporting ideas for greater vendor control. This includes special shopping coupons given to buyers of airline tickets or the more sophisticated technique of a smart card — an electronic shopping card which recognises whether or not the holder is entitled to duty free discounts on purchases.

Part of the problem of reaching a consensus of opinion on duty free is that most member governments have differing degrees of interest in the issue. The British government, which might have been expected to be very concerned at the impact on industry if duty free goes, has been rather ambivalent. On the one hand, expressing concern at possible job losses but, on the other, supporting the idea of liberalising restrictions on trade and travel.

But does the duty free shopper really care? A recent market research survey, by the Harris research company, found that most duty free shoppers only bought goods because they were bored. Given the potential for more airport delays in the 1990s as the skies become more crowded, it would seem likely that airport customers are unlikely to abandon airport shopping, whatever the price to be paid.

IN THIS SURVEY

■ The European Community: Politics emerges as the real barrier;

Scheduled airlines: Some gloomy horizons beyond 1992;

Profile: Perfume — the scent of heavy losses is in the air Page 2

■ The consumer: Are the savings worthwhile?

Chartered airlines: Prepared for a hard landing;

Airports: Double disadvantage for the Euro traveller Page 4

■ Duty free: The industry's support for greater vendor control;

Shopping coupons given to buyers of airline tickets or the more sophisticated technique of a smart card — an electronic shopping card which recognises whether or not the holder is entitled to duty free discounts on purchases;

Part of the problem of reaching a consensus of opinion on duty free is that most member governments have differing degrees of interest in the issue. The British government, which might have been expected to be very concerned at the impact on industry if duty free goes, has been rather ambivalent. On the one hand, expressing concern at possible job losses but, on the other, supporting the idea of liberalising restrictions on trade and travel.

But does the duty free shopper really care? A recent market research survey, by the Harris research company, found that most duty free shoppers only bought goods because they were bored. Given the potential for more airport delays in the 1990s as the skies become more crowded, it would seem likely that airport customers are unlikely to abandon airport shopping, whatever the price to be paid.

■ The ferry companies: Offering upmarket shopping and wine bars to limit the damage;

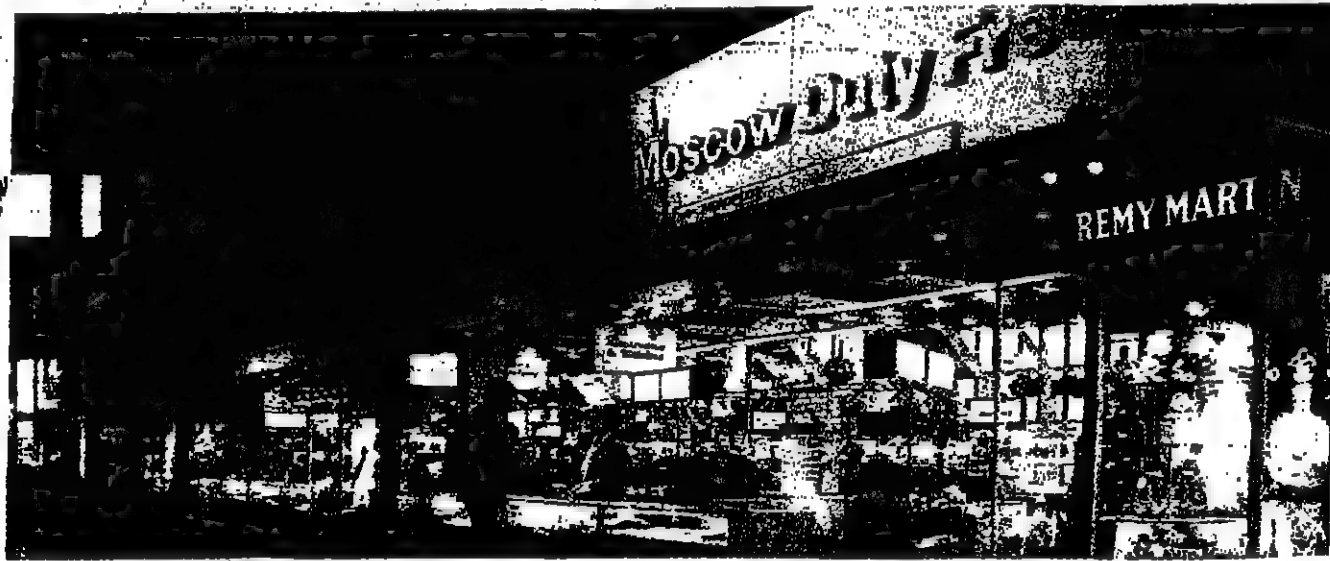
Profile: Alcohol — distillers fear annual losses of up to £40m Page 5

■ Profile: Tobacco;

Shannon Airport;

Schiphol Airport Page 6

Editorial Production: Phillip Halliday



Duty free shop in Moscow

DUTY FREE: FOR AND AGAINST

Not such a clear-cut case

THE CASE for abolishing duty free within the European Community is fairly clear: as harmonising of fiscal structures takes place after 1992 it would be out of place to grant special tax privileges to ferry and airline travellers and not to any other intra-community consumers who cross national borders.

But the case for maintaining duty free is also persuasive to those whose very livelihood depends on it. The outcome of the present high level of lobbying among member states and in Brussels will depend, however, on how others are persuaded.

The duty free industry is slightly annoyed that it is having to spend any time and effort at all in defending its existence.

"Really, it should be up to the people in Brussels to make out an overwhelming case in favour of scrapping duty free," says Mr John Douthwaite, secretary-general of the Duty Free Confederation.

"Since duty free exists now and works to everyone's advantage, it seems that it should be up to the Commission to fall out the advantages to consumers, companies, and governments alike from ending the present arrangements," he adds.

The arguments against scrapping duty free trading are based on several levels. The Duty Free Confederation and its related European counterparts have commissioned academic studies to support claims about the likely impact on the main suppliers of duty free shopping and services.

Airports are said to be among the biggest losers. East Midlands Airport, for example, estimates that its annual loss if duty free is abolished would be £1m.

General estimates are that duty-free keeps landing charges down by between 21 per cent and 26 per cent: the obvious conclusion being that if duty free goes, airline landing charges will go up and so will airline prices.

The case for maintaining duty free is also persuasive to those whose very livelihood depends on it

Yet such seemingly clear-cut relationships between prices and costs are never as simple. European airlines already operate in a largely protected market place as a result of national governments' determination to maintain sovereignty over scheduled air routes. But, equally, they are operating in an atmosphere of increasing competition.

While abolishing duty free sales would put pressure on the airlines to increase prices, they may find themselves restricted from doing so by market forces and would have to look to other ways to maintain competitiveness.

As one airline executive puts it: "It would be nice to think we could just pass on any extra costs to our customers but the real world isn't like that: we would have to think very carefully before jacking up prices by as much as is being suggested by the duty free lobby," he says.

The impact of abolishing duty free sales will, in theory, also harm the cross-channel ferry industry at a time when it faces strong competition from the Channel Tunnel.

Duty free sales are estimated to account for nearly two-thirds of all on-board sales and profits are said to keep fares down by an average 23 per cent on channel routes and 12 per cent on routes between the UK, Belgium and The Netherlands.

But the ferry operators and airlines will both probably find their pricing policies in the 1990s heavily influenced by demand and the general state of the world economy.

The World Tourism Organisation and other forecasters maintain that international travel is set for steady, if unspectacular, growth in the 1990s of about 4 per cent per year compound.

Any price increases as a result of the abolition of duty free, therefore, would probably limit but not totally inhibit this growth.

The travel trade also says it is worried by the implications of the ending of duty free. Apart from the impact on charter airlines, which rely heavily on duty free sales, it could also see holidaymakers switching to non-EC resorts such as in Morocco or Tunisia and away from holidays in Greece and Spain.

Among the many products

that could face a slump in sales by the end of duty free, Scotch whisky would probably be among the hardest hit. The Netherlands Economic Institute, which carried out an economic survey of the implications of ending duty free, suggests that between 40 per cent and 70 per cent of existing duty free business would be lost.

The problem with such reports, however, is that while the bodies concerned are undoubtedly totally independent in their research and findings, they are still producing doom scenarios paid for by the lobby groups who are trying to save duty free sales.

What would be most helpful to the present debate would be a truly independent study of what might happen when duty free goes, paid for by neither the Brussels administration seeking the change nor the industry which wants to maintain the status quo.

Such a study might find that the loss of duty free sales would be relatively damaging in the short-term to a wide range of interests, but that the effects would probably even themselves out after a few years.

It is whether community governments really want the short term hiatus that scrapping duty free will entail that will probably decide the timetable for duty free's abolition and its consequent effects on the sectors involved.

David Churchill,
Leisure Industries
Correspondent



For him.

Burberry Cashmere Scarf RRP £75.00.
Heathrow price £66.00.



For her.

Altwood & Savers Dragonfly Brooch RRP £25.25.
Heathrow price £21.95.



For his nibs.

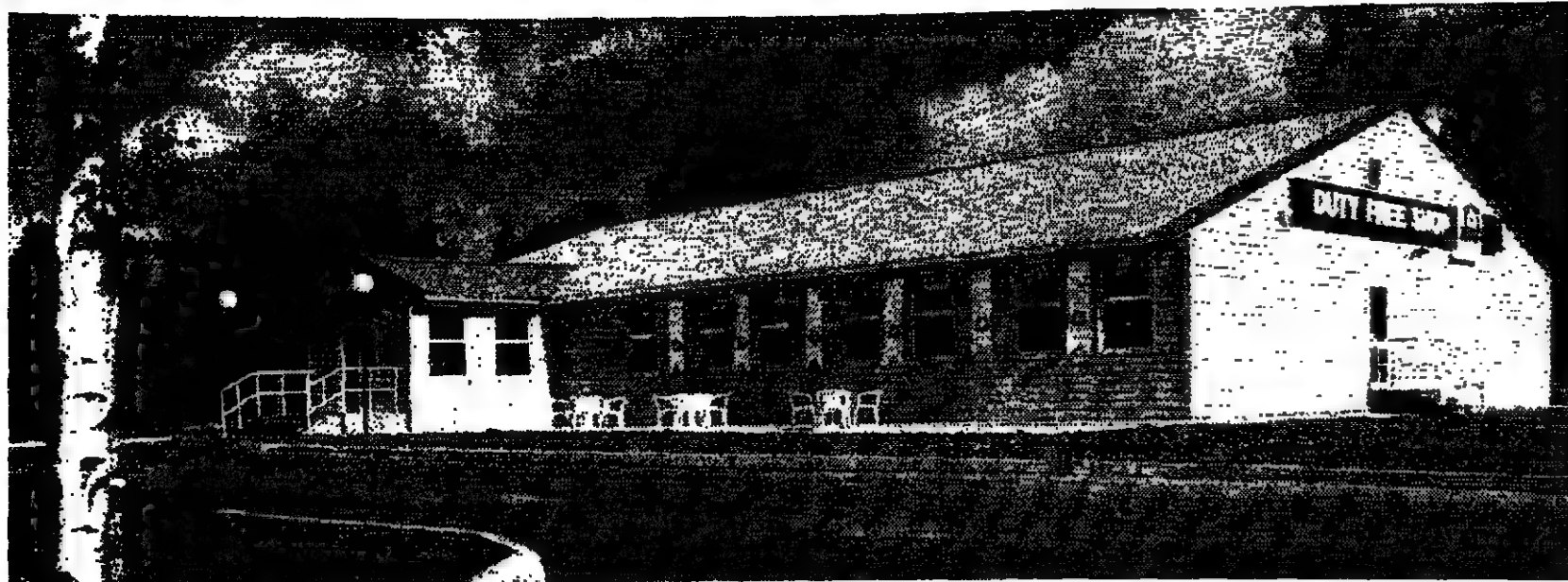
Parker Pen RRP £165.00.
Heathrow price £144.00.

You will find a vast selection of the world's most prestigious brands at Heathrow Airport Tax Free Shops. A place where you not only experience the finest in shopping, but also make some real savings because all the prices are tax free. Featured are just three examples. You can have the pleasure of discovering the rest for yourself.

B.A.A. Heathrow

Products subject to availability. Prices correct at time of going to press.

EUROPEAN DUTY FREE 2



Frontier duty free shop on the border of Finland and the Soviet Union, near Vyborg

Is there life after 1992 for European Community duty free sales?

Politics emerges as the real barrier

AS far as the European Commission is concerned there is nothing more to say on the subject of duty free. There is no need for any special proposals on the subject, nor any special debates. In the single market duty free sales will be illegal: it is as simple as that.

However, the screams from the producers and vendors of duty free are not getting any quieter, and even some member states are beginning to come round to the view that

effect of making all duty free sales illegal. The proposals would abolish any notion of import and export within the Community, and with them, they would abolish the machinery of travellers allowances. All goods would be taxed - there is no provision for special exceptions - either for duty free or for any other sort.

However, these two proposals are far from having been agreed by member states. Like all matters that concern tax-

manufacture, is taking a somewhat ambivalent position on the issue.

The Netherlands, for which duty free sales is also important, is likely to put up a strong fight. By contrast many other countries, which have never acquired the habit of buying a bottle of spirits every time they get on a plane, are most unlikely to actively support measures to keep the market alive. Thus a total support one way or another is not going to be reached easily.

The issue raises particular problems for British politicians. In theory, the UK is one of the member states committed to the principle of a free market, and intellectually at least it supports the Commission's position. However, given the importance of the industry, it has said that if it can be found that "real economic damage" is done by killing the industry off, it will re-consider the matter. It is viewing the matter as a practical one, and if it is convinced that a wealth-creating industry is being lost, it is likely to start the fight to save it.

So far, British officials are sceptical about some of the research that has been produced on the importance of the industry. As most of it has indirectly been sponsored by the industry itself, there is no reason to believe that its predictions would necessarily come to pass. A study produced last year by the Netherlands Economic Institute on behalf of the duty free lobby claimed that 7,200 jobs would be lost directly in duty free shops, and many more in the

manufacturing and tourist industries. As a result of the lost profits, air fares would go up by 10 per cent and ferry fares by 23 per cent.

Some member states argue that the principle of the single market may not be that important. Indeed, that principle has been breached in the Commission's proposals for VAT and excise duties, which make a distinction between the tax arrangements for goods consumed at home, with those

to the proposed control system. Can the vendors - in whose interests it is to sell as much duty free as possible - act as the policemen for the system, making sure that sales are strictly limited?

More difficult is how the system is worked. If each traveller can only buy duty free in one place, the system might be fairly straightforward. However, this solution is not likely to be acceptable to the industry. If instead they could buy it

Even before the talk of the European Single Market, there was no particular justification for duty free sales

consumed in other member states.

If the Commission does have to accept that duty free sales should stay, there remains the serious problem of how the market should be controlled once frontiers are removed. The industry has suggested that the vendors could control sales. The Commission would probably like to throw cold water on the idea; unfortunately, as it suggested this idea to the industry in 1983 as a means of making the existing market work more efficiently, it cannot be too dismissive of it.

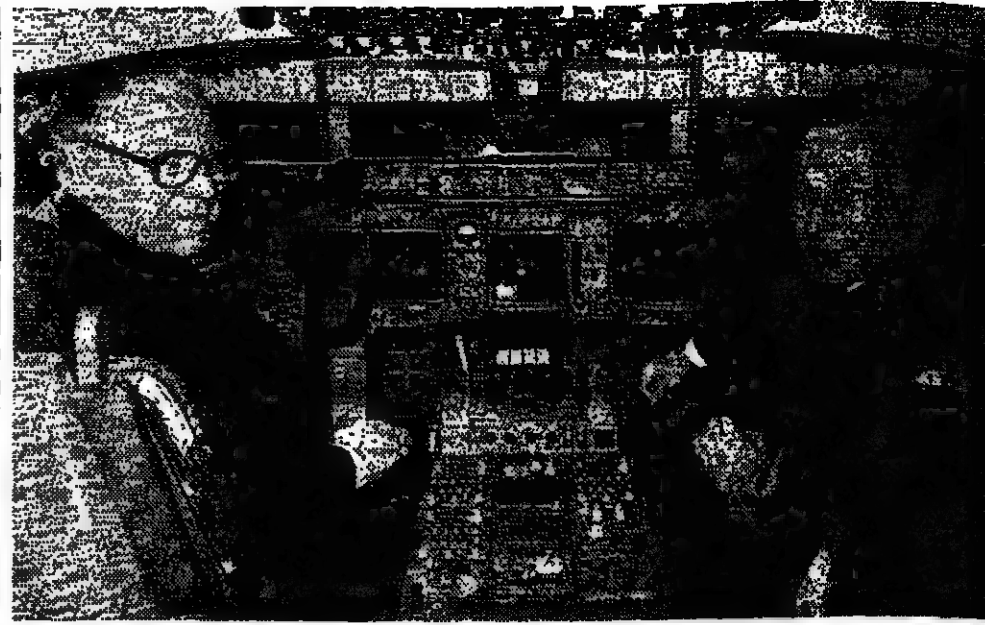
Instead, the Commission has suggested that this system of control might be illegal after 1992. The single market act abolishes frontiers: it is possible that the system of controls by vendors would constitute frontiers, and would therefore be outlawed.

There are practical problems

at multiple points along a journey, officials are worried that the control, perhaps with special punched computer cards might start getting a bit complicated. Whatever system of stamps was used would have to serve not just for the passenger but would need to allow the tax man at home to keep track of volumes.

There is little doubt that these practical problems can be solved if need be. The real problem is a political one, and the temperature on this score is yet to be tested. Because there has been no proposal from the Commission, member states have still not discussed the matter in any detail. They are going to have to address the issue by themselves, because the Commission is showing no signs of doing anything.

Lucy Kellaway, Brussels



Lord King (left) and Sir Colin Marshall, at the helm of British Airways, fear distortions

SCHEDULED AIRLINES

A gloomy horizon

EUROPE'S scheduled airlines are not looking forward to 1992. The creation of the single free market will lead to higher air fares in the European Community and a decline in passenger numbers, according to industry analysts.

The proposed abolition of duty and tax free sales will hit demand for flights between member states and raise costs for EC airlines, according to the latest report on the impact of the single free market commissioned by the International Civil Airports Association.

Scheduled carriers, however, are not expected to suffer as badly as their charter-based competitors from the loss of duty free income.

Large airlines such as British Airways rely less heavily on income generated by on-board sales than smaller charter operators that compete to sell discounted seats to tour operators.

The main impact of the abolition on duty free shopping will be in airport charges. Coopers and Lybrand Deloitte, the London firm of accountants earlier this year told the International Civil Airports Association that Community airports face a 14 per cent cut in profits after 1992.

They are expected to recover the loss from duty free abolition through increased charges for airlines. "Landing and passenger related charges would have to be raised by an average of 14 per cent," the accountants said.

The airlines, in turn, will eventually have to offset the increased handling charges by raising fares.

Sir Colin Marshall, deputy chairman and chief executive of British Airways, has warned that the cost of changes to the industry's infrastructure after 1992 will run into billions of pounds. "Mr and Mrs Flying Public will pick up the bill for these necessary improvements at the end of the day," he said.

The BA chief executive is more concerned at proposals to extend value added tax to transport as part of EC moves towards fiscal harmonisation.

Intercontinental airlines with offices around the world would have to manage a chaotic fare structure to meet the VAT proposals, according to Sir Colin, who said: "A passenger can buy a ticket in Alaska for travel between London and Edinburgh. Where would the VAT element of that fare be paid? And what would be payable on a ticket from Glasgow to non-EC Switzerland and then on to Italy? Would a non-EC intercontinental airline pay VAT on a European sector, and to whom?"

Duty free concessions can be removed only once all other trade and travel barriers are gone, he added. Smaller scheduled carriers are likely to be harder hit than airlines of the size of British Airways. Companies such as Ryanair, the Irish airline which operates routes to Eire from Luton Airport, will find its ability to offer discount seats curtailed as increased airport charges start to represent a higher proportion of costs.




Fares of flights such as Ryanair's daily service between Luton and Shannon could rise dramatically. Coopers and Lybrand Deloitte's recent report on the future of the duty free industry said: "On such routes, scheduled air fares could rise on average by between 10 per cent and 20 per cent, with the lowest leisure-related fares being even more adversely affected."

Some carriers such as Air France have stopped offering duty free on inter-EC flights. Air France decided duty free income was not large enough to warrant the disruption to other on-board services.

The increased costs and seat prices likely to be forced on European airlines could be good news for non-EC carriers operating within the Community. Airlines such as Pan Am, the US carrier which sells discounted seats on the London-Frankfurt leg of its flight to Delhi, could benefit from higher fares charged by European competitors. But these airlines would also have to bear the brunt of increased airport charges.


The main danger for scheduled carriers is higher airport charges. BAA, formerly the British Airports Authority, which runs about 200m a year from duty free sales, could have its profits halved by the abolition of duty free sales. BAA's biggest clients, the scheduled airlines, would be expected to make a greater contribution to its income. Sir Colin Marshall warns that the changes planned for 1992 could lead to "distortions and anomalies just at a time when we should be removing the old ones."

Tim Burt




AIRPORT OPERATORS ASSOCIATION

The Representative Body for Airports and Aerodromes in the British Isles.



FOUNDED 1934

As the representative body of over 70 airports throughout the British Isles and as a founder member of the Duty-Free Confederation, we wholeheartedly support the campaign to preserve intra-community duty-free sales which are threatened by abolition after 1992.

EUROPEAN duty free sales in perfume and cosmetics have been estimated at about 15 to 20 per cent of total sales in the industry. The loss in sales, should duty free be abolished, could be heavy.

According to the Federation Française de l'Industrie des Produits de Parfumerie, de Beauté et de Toilette, sales at duty free outlets have increased by an average 24 per cent per annum with cosmetics contributing heavily to this growth.

Mr Jacques Greep, international director of perfume at Christian Dior, says that world duty free sales of fragrances and cosmetics amount to FF19bn while European sales make up FF15.6bn of this.

He adds that the loss of perfume sales, should duty free be abolished, would affect France heavily. About 80 per cent of fragrances and cosmetics sold duty free is of French origin.

The perfume industry is made more vulnerable because of the nature by which it is bought from duty free outlets. A survey for the Netherlands Economic Institute, in 1989, found that 60 per cent of purchases of perfumes and cosmetic were made by business travellers, while 40 per cent were by tourists.

It said that business travellers tended to buy luxury products such as perfumes as a present while tourists more often bought for personal use.

Such impulse purchases are particularly important for luxury products such as perfumes and cosmetics.

The survey has predicted that, based on the assumption that 60 per cent of passengers in the EC are travelling within the Community, about 60 per cent of intra-EC duty free sales of perfume and cosmetics will be lost. This initial loss will amount to £600m.

"All analyses we have made show that roughly speaking we would lose 60 to 65 per cent of sales from duty free outlets in Europe should duty free go," confirms Mr Greep.

Within the industry there are fears that the loss of sales to duty free outlets will not be recovered on domestic markets. Impulse buying is, it says, less common in domestic markets and the recovery rate could amount to, at most, 35 per cent.

Mr Greep is even more pessimistic.

"According to our specialists, it would not be possible to recover more than 15 to 25 per



World duty free sales of fragrances and cosmetics amount to FF19bn

PERFUME

The scent of heavy losses is in the air

cent on the domestic markets," he says.

The losses to the industry would not be purely financial. Like tobacco, perfumes and cosmetics benefit from the shop window provided by duty free outlets and, as a result, the loss in the promotion of products would be severe.

"The loss of window and

Duty free outlets are exempt from those criteria. Airport shops that continued to trade as duty paid outlets would have to make the necessary changes to conform to the industry's regulations.

This, says Mr Greep, is another danger facing duty free outlets.

The industry has certain

The perfume industry is made more vulnerable because of the nature by which it is bought from duty free outlets

advertisement space would be a loss for us and for the tourist industry," says Mr Greep.

In addition the French perfume industry has strict rules as to how its products are sold. It has the right to refuse supply if an outlet does not comply with the criteria that are set out by industry and approved by the government in France.

contingency plans. It intends to maintain outlets at airports. This way it could still benefit from the impulse buying of travellers. Other plans relate to new marketing techniques and new products.

In France, the industry is lobbying heavily both French ministers and the European parliament in Strasbourg.

However, Mr Greep says: "We have not really thought about how we will compensate losses because we have to be optimistic."

It isn't just optimism that explains the lack of preparation. There is scepticism within the industry over whether tax harmonisation will have been reached by January 1 1993.

"I don't think duty free will be abolished because tax harmonisation is one of the conditions for a single market," says Mr Greep.

Like other duty free industries, the perfume industry seems bewildered as to what the point of abolishing duty free would be.

"Who gains?" asks Mr Greep.

The industry loses, airports lose and ultimately the consumer loses. It would be a nuisance for everybody."

Emma Tucker

Freedom of trade. Freedom of travel. Freedom of purchase. All things we are led to believe will be brought about by the Single European Market. But in fact some of our existing freedoms are under threat.

If the European Commission puts an end to intra-community duty and tax free sales, you will no longer be able to save up to 40% on spirits and cigarettes and up to 20% on perfume when you travel by air and sea from the UK to other member states. Furthermore the resulting loss of income to airports, airlines and ferry operators would leave them no alternative but to raise charges.

Increased charges from airports to airlines, coupled with the airlines' own reduced income would mean increased fares. Charter airline seat costs could rise by 10%. Likewise cross-channel ferry fares could rise by as much as 23%.

Inclusive tour holiday prices to Community countries would become less competitive to the benefit of non-EC destinations and the detriment of EC tourism.

Manufacturers would lose a valuable 'shop window' for high value, luxury goods produced predominantly within the Community.

These are some of the reasons why the companies which make up the Duty-Free Confederation are campaigning to ensure that duty-free trading continues in Europe for as long as possible. Representing over 60 major UK companies including airlines, airports, shipping companies, duty-free shop operators, ship and airline chandlers, manufacturers and suppliers, the Confederation is but one of 16 such organisations throughout Europe including one in every Member State of the Community. All of them are united in their support for the creation of a Single Internal Market, but more importantly, in their belief that the abolition of duty-free is neither necessary, nor desirable.

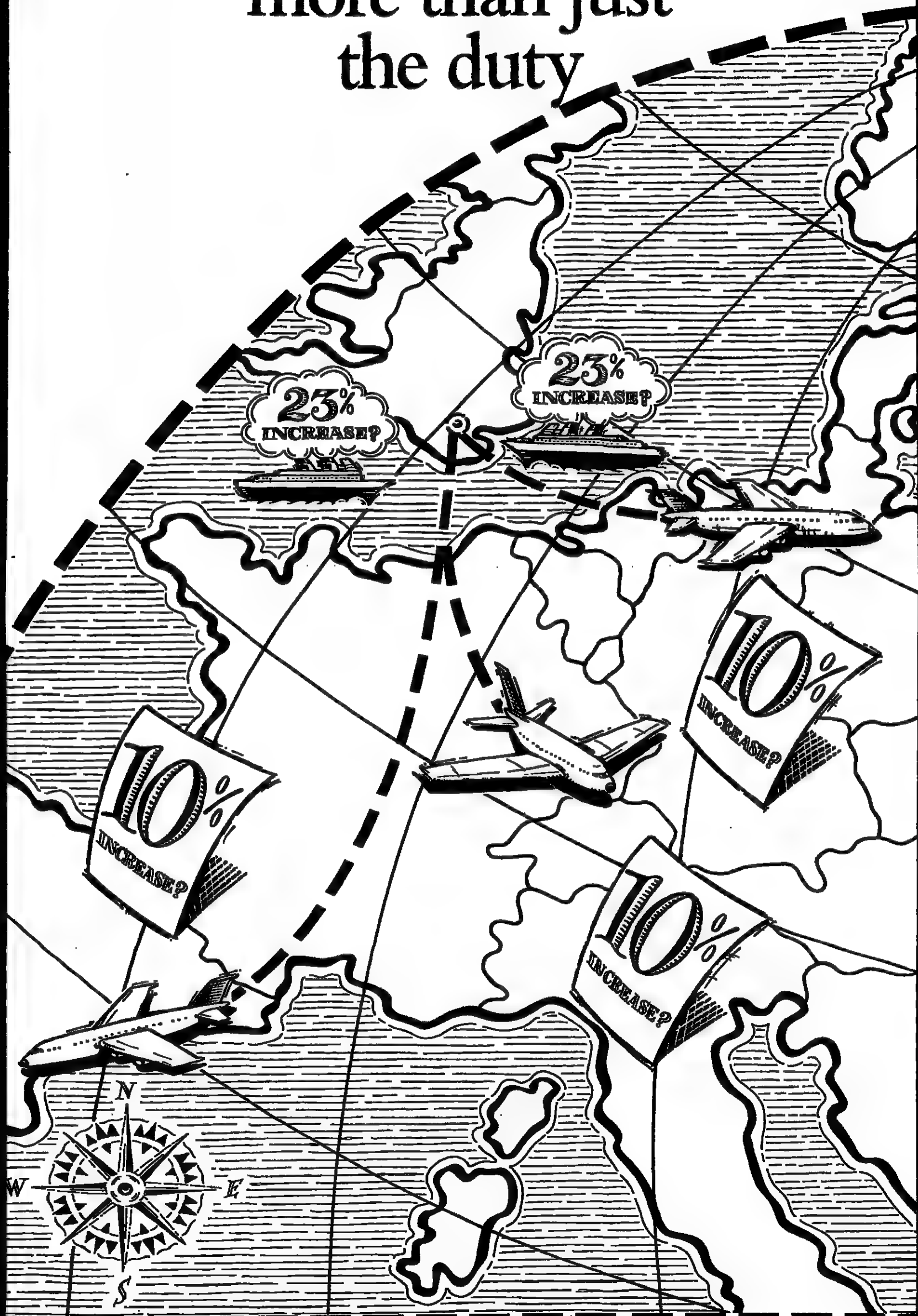
That's where you come in. The greater our support the better our chances of success. If you are interested in joining our campaign or simply finding out more about the issue, please either complete the coupon below and send it to the Duty-Free Confederation, Priory House, 8 Battersea Park Road, London SW8 4BG or telephone **071-498 3770**

The Duty-Free Confederation



Duty Freedom?

When the barriers come down you may have to pay more than just the duty



Please send me more information about the Duty-Free Confederation.

NAME _____

ADDRESS _____

POST CODE _____

Duty-Free Confederation, Priory House, 8 Battersea Park Road, London SW8 4BG



A bargain in spirit

Travellers may do better to wait and buy at the airport on

In a duty free shop, as you don't pay either excise or VAT, you might expect a bottle of Gordon's gin to cost about £3.28, as well. Instead UK air-

imum price discounts over high street prices or manufacturer's recommended retail prices. These price guarantees feature heavily in BAA advertising.

Stella Yarrow,
Consumers Association



Prepared for a hard landing.

Mr Bob Parker-Eaton, deputy managing director of Britannia Airways - which claims to be the world's largest charter airline - says the abolition of duty free concessions will rebound four times on EC airlines.

offset duty free losses. The tough competition in the U.S. has this year seen several airlines cease trading, including British Island Airways, Paramount Airways and Novair.

Elsewhere in Europe, the forecasts are equally gloomy. A

Tim Burt

Tim Burt

A double disadvantage for the European passenger

What actually happened on January 1 1993

The airports argue that

*Sales in the city included
Source: *Daily Free News*

The airports are clearly aware of the potential problems. When the ICAA held a symposia in 1986 on the implications of the creation of the European Single market for the industry, only 176 people attended. At the same event in

were more than 400.
The airports are sure

sales by passengers travelling in the EC would be a considerable financial blow to the airport," explains Mr Berco Leaf-tink, a manager in the commercial exploitation

The airports are faced with a tricky problem in passing on

FOR ADVERTISING INQUIRIES
071-87
FOR EDITORIAL INFORMATION
081-87

FORMATION CONTACT
3-3000
CONTACT DAVID DODWELL
3-4090

WORLD'S No. 1
IN DUTY FREE

SPOLI-T HOMPSON

081-873-4090

Caroline Fossey charts troubled waters for the ferry companies

A case of damage limitation

WORRYING TIMES lie ahead for ferry companies, especially those operating the popular cross-Channel routes. Not only is the Channel Tunnel scheduled to open in June 1993 but that year could see the threat to abolish intra-European Community duty free sales become a reality.

This will be bad news for all outlets selling duty free goods but ferry companies stand to lose the most. According to reports published by the Netherlands Economic Institute, profits on duty and tax free sales on the EC routes amount to \$180m a year.

A good deal of this is ploughed back into the companies, helping with investment and modernisation plans. The profits help to keep fares down by as much as 23 per cent on some routes.

The day trip, popular because it offers passengers a chance to stock up on cheap goods, may lose its appeal. As the number of passengers dries up so the number of sailings would be reduced. This would mean less travel flexibility and more inconvenience for freight transport. Up to 400 people who are employed on the ferries could lose their jobs.

It all looks a pretty bleak picture with travellers having to pay high prices to travel on

outdated ships with reduced facilities on board.

However, it is an inaccurate picture. From as early as 1987 when work began on the Channel Tunnel, the ferry companies were working on their answer - the superferry. Mr Dan Sten Olsson, president of the Stena Group, the Swedish-based shipping company which owns Sealink, said at a Financial Times Conference earlier this year that he believes that ferry lines will increasingly move closer to having a traditional cruise profile.

The facilities offered by

start their holiday as soon as they board and this means offering more comfort and entertainment. If passengers are relaxed and enjoying themselves, the companies believe they will want to spend.

At the moment, large duty and tax free shopping complexes attract customers and their cash. To make sure this spree continues after 1993, the ferry companies are considering new types of outlets.

Sealink is looking at the possibility of niche-retailing, a very upmarket department store, according to its passen-

prices similar to those ashore.

This year, Sealink launched its two superferries, the Fantasia and the Fiesta. It is hoping that by 1993 people will have tried the superferries at least once and will want to use them again. Sealink and P&O would like to offer a joint shuttle service between Dover and Calais once the tunnel has opened. This proposal has been rejected once by the Monopolies and Mergers Commission but the companies are planning to try again in 1993.

Sally Line is experimenting with the idea of franchising. Earlier this year, the Sally Sky was enlarged and can carry 1,800 passengers though numbers are limited to 1,500 to ensure space and comfort. Alongside the shops selling items by Gucci and Dior, is Benetton, the first popular high street name to be taken on board. Clothes cost the same as on shore but management reckons that once people are on board and in holiday mood, they will want to spend.

To ensure the right frame of mind, ferry companies are deliberately keeping passenger numbers below capacity and offering upmarket shopping, wine bars, dance areas and casinos as entertainment.

Another school of thought hopes to attract customers by



Sealink ferry at Dover: the company is looking at the possibility of niche retailing - upmarket department stores perhaps

offering a much speedier, if less comfortable, service. Regie vooer Maritiem Transport (RMT) has ordered a superferry which will begin operating in July next year, but is very interested in the new wave-

piercing catamaran that has been developed and is serving the Portsmouth-Cherbourg route.

These catamarans are fast, cutting the 8-hour journey down to 2½ hours. However, the first to start operating - the Seacat, owned by Hover-

speed - has had teething problems and the ferry companies are awaiting developments with some reserve.

Brittany Ferries and Sealink doubt that the catamaran will replace the ferry. Brittany has one superferry, La Bretagne, and has ordered another two for 1993.

It believes the way ahead is to provide comfort, space and entertainment. Sealink agrees with this. It compares its spacious shopping complexes where people can move easily

to the trolley service, found on the catamaran.

No decision has been made as to when or how duty free shopping will go.

It could take another five years to do away with present fiscal frontiers and establish a harmonious European tax system.

However ferry companies try and replace lost duty free revenue, they can never achieve the profits from on duty free sales. This is the view of Mr David Asprey of the General

Council of Shipping and member of the board of the International Duty Free Confederation. At best, he says, they can only recover some of their lost profits.

Cross-Channel sailing will change radically this decade. No more the sight of people staggering along the gangways laden with crates of beer. Instead, the ferry could become a waterborne high street with luxury boutiques catering for those in expansive holiday mood.

ALCOHOL

Distillers fear annual losses of up to £40m

THE ALCOHOL industry, a long-time beneficiary of duty free sales, is not going to watch the duty free business disappear without a fight.

The reason is clear. Duty free sales represent a significant market for the industry's products and, unlike tobacco, there is no questioning its importance.

What is at risk is at least 2-3m cases of whisky, and half a million cases of gin sold at airports, on aircraft and on ferries every year.

The Scotch whisky industry, which alone accounts for 30 per cent of all European Community duty free wines and spirits sales, has predicted that it would lose about \$40m per annum, the equivalent of its eighth largest export market.

Generally, the alcohol indus-

try does not oppose the creation of a single market, which it believes can operate alongside continuing duty free sales.

"As an industry we are supportive of the concept of a single market," says Mr Chris Scott-Wilson, senior legal adviser for Guinness and chairman of the International Duty Free Confederation.

"Where we think that duty free cut across that then we would look at it again. But we don't think the two are incompatible. We are faced with a situation in which there is a potential loss to us and to the UK which is completely unnecessary."

That loss is likely to hit the whisky industry particularly hard. The EC is whisky's largest market, accounting for 45 per cent of its total world wide sales.

The Scotch Whisky Association argues that each member state taxes whisky differently but that virtually all countries tax it much more heavily than competing drinks such as wine and beer, the prime motive being protection of their domestic industries.

It fears that the EC's tax harmonisation proposals would result in spirits being taxed eight times as heavily as wine and four times as heavily as beer when compared on the basis of alcohol content. This, along with the abolition of duty free would deal a heavy blow to the industry.

Whisky manufacturers can be broken down into two groups: large producers integrated in a conglomerate of multinational activities, and small producers concentrating on a few products.

For large producers sales via duty free outlets are not as important. The smaller producers are more dependent, relying on the sale of upper grade whiskies (mostly malts) for which duty free sales tend to be more important.

Mr Scott-Wilson, envisages two possible consequences to the abolition of duty free. The first is that some products may still be sold duty paid at airports, but this he argues is likely to be relatively small.

"Some of the premium brands may still have pres-

ence," he says. "Five per cent of that market may be retained, but that is very much a guess."

The second possible outcome would be for people to continue to make similar purchases in the domestic market, duty paid.

However, Mr Richard Owen, director of commercial strategy at United Distillers, points out that research into the duty free market suggests that the majority of items bought duty free are not part of the consumers' ordinary shopping basket - they are bought as one-off presents, either for others or for the purchaser. This, he says, means that replacement in the domestic market is unlikely to make up for losses in duty free sales.

Mr Scott-Wilson is equally pessimistic. "The reality is that by the time people have paid some money for their travel, they are not going to have the much more to make expensive, duty paid purchases," he says.

"When they get back into the domestic market they are likely to revert to their normal purchasing patterns, so it can be argued that the replacement in the domestic market is going to be incomplete."

A survey by the Netherlands Economic Institute on the impact of abolishing duty free said that part of the loss will be recovered on the domestic market since most spirits will continue to be bought by their consumers at local outlets. But it also warns that people will no longer buy the high quality brands as these are considered too expensive in the local shop.

The producers of deluxe products, especially smaller companies that specialise in malt whiskies will be hardest hit," says Mr Owen.

For the cognac industry, concentrated in the French cognac region, sales at duty free outlets are important. The survey found that in 1988, 14 per cent of total world sales were at duty free outlets. Sales to duty free outlets within the EC took a share of about 54 per cent.

According to the survey, most of the intra-EC duty free sales were made through shops at airports, although in the Scandinavian countries most of the sales appeared to be made through shops on the ferry boats.

The survey predicts a loss of up to a third of world total duty free sales, should duty free be abolished. People will continue to buy cognac from local shops which could mitigate the reduction by some 50 to 75 per cent.

It is expected that people will trade down on quality and purchase less expensive cognacs. Therefore, for high quality cognacs the recovery rate is likely to be much lower. This means that the effect for high grade cognacs may be worse, although EC-sales of these cognacs are relatively less important," says the survey.

Emma Tucker

40%* CHEAPER PER LITRE.



It's amazing the amount of money you can save in the Duty Free Shop at BAA airports. Measure for measure, you can pay 40% less for spirits than you'll be charged in the High Street. That's on at least two dozen brands selected from the greatest national and international brand names - not just the five shown here. And because we regularly monitor prices, with an independent survey, you'll always be sure to find savings of at least 20% on all our wines and spirits - plus a minimum 40% saving on all leading international cigarette brands.

HEATHROW · GATWICK · STANSTED · GLASGOW · EDINBURGH · PRESTWICK · ABERDEEN

B·A·A
The world's leading international airports.

DUTY FREE SHOPPING

*The saving is calculated by comparing our 1 litre price with the national 1 litre High Street price which is the average of prices in a number of High Street stores. (The national 1 litre price, names of stores concerned and individual product prices are available in the Duty and Tax Free Shop) (Source: Nielsen Consumer Research of representative UK High Street stores conducted during June '90. Products subject to availability.)

Six of the best.



Back in 1947, the first duty free shop in the world was opened - believe it or not - at Shannon Airport in the west of Ireland.

The experience enabled Aer Rianta - Ireland's Airport Managers - to know more about duty free shopping than anybody else in the world.

Experience that proved handy when the Russians began looking for a suitable partner to develop the USSR's first duty free shop at Moscow's Sheremetyevo Airport.

Because it proved an immediate success, Aer Rianta International went on to open - with joint-venture Soviet partners - duty free emporia in Leningrad at the International Airport and in two downtown hotels, at Torfionovka on the Russo-Finnish border. To continue building on this success we plan to open several more Duty Free shops in Russia and other Eastern European countries in the near future.

These days, you never know where in the world Aer Rianta International will turn up next!

Aer Rianta INTERNATIONAL

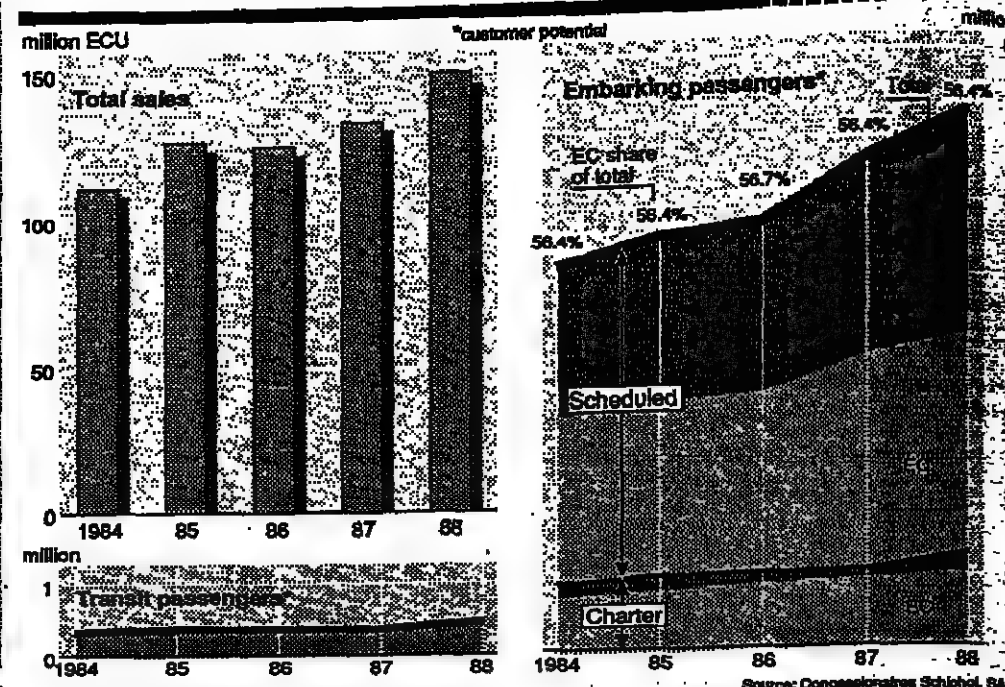
Shannon International Airport, Ireland.
Telephone 353 61 361361. Telefax 353 61 61156.
Telex AERO EI 72131.

EUROPEAN DUTY FREE 6



Schiphol airport claims to have one of the largest assortment of duty free goods on the Continent

DTF sales at Schiphol



PROFILE: SCHIPHOL

A strategy for all seasons

AMSTERDAM'S Schiphol airport and shopping centre, as the first duty free airport on the continent, prides itself on being in the forefront of retail developments. Thus, while it is concerned at the effect of abolishing duty free sales after 1992, it is preparing to maintain its strong retail presence among the airports of Europe.

A new extension, due to open in 1993, is being built for non-EC traffic and the existing shopping areas, remodelled only in 1988, are likely to be converted into a tax paid zone for intra-European travellers. The Schiphol strategy is based on the fact that even with the potential loss of duty free sales, it expects to attract an increasing share of the projected growth in air traffic in the 1990s.

Schiphol is the fifth largest airport in Europe in terms of passengers, with almost 15.7m air travellers passing through the airport last year. In the

first six months of 1990, passenger numbers rose by 5.2 per cent to reach 7.4m. Scheduled passenger numbers rose by 6.4 per cent, while domestic travellers increased in number by 12.7 per cent.

In terms of retail sales, however, Schiphol has the second largest turnover with the equivalent of more than 1m guilders spent there every day. Travellers spend more than 50 guilders each in the duty free shops, above the average for European airports.

Schiphol's shopping facilities were opened in 1957, initially just to enable passengers to buy souvenirs, but with the addition of liquor sales soon

after. In the early years, goods could only be sold to non-Dutch residents with international destinations: European travellers were allowed to buy later.

In 1967, when a new terminal was opened, the shopping centre was substantially enlarged. More retail space was added in 1976.

The airport shopping centre has some 40 shops spread over a floor area of 2,300 sq metres. It claims to have one of the largest assortment of duty free goods on the Continent as well as charging among the lowest prices on average of all European duty free shopping centres.

A recent survey by Which? magazine, published by the Consumers' Association, suggested that consumers could "find bargains for spirits and perfumes".

Schiphol says that its aim is to maintain prices between 20 and 25 per cent below those in Dutch retail stores. It regularly compares prices with those of other airports' duty free outlets.

It operates a policy of giving the concession-holders exclusive rights to sell certain types of goods to ensure as wide a range as possible is stocked. Thus, for example, a clothing accessories store is not allowed to sell perfume, and vice versa.

"The active assortment and pricing policy means that the shops do not have to compete with each other, while the traveller does not need to stroll round looking for the lowest price," says a Schiphol spokesman.

Another advantage of Schiphol is that any Western currency can be used to buy goods in the shopping centre. Apart from goods found in most duty free shops, Schiphol has what it claims is the world's oldest and largest dealer for tax free cars.

Not all travellers are able to shop without restrictions: tax alters on flights within the Benelux region cannot buy

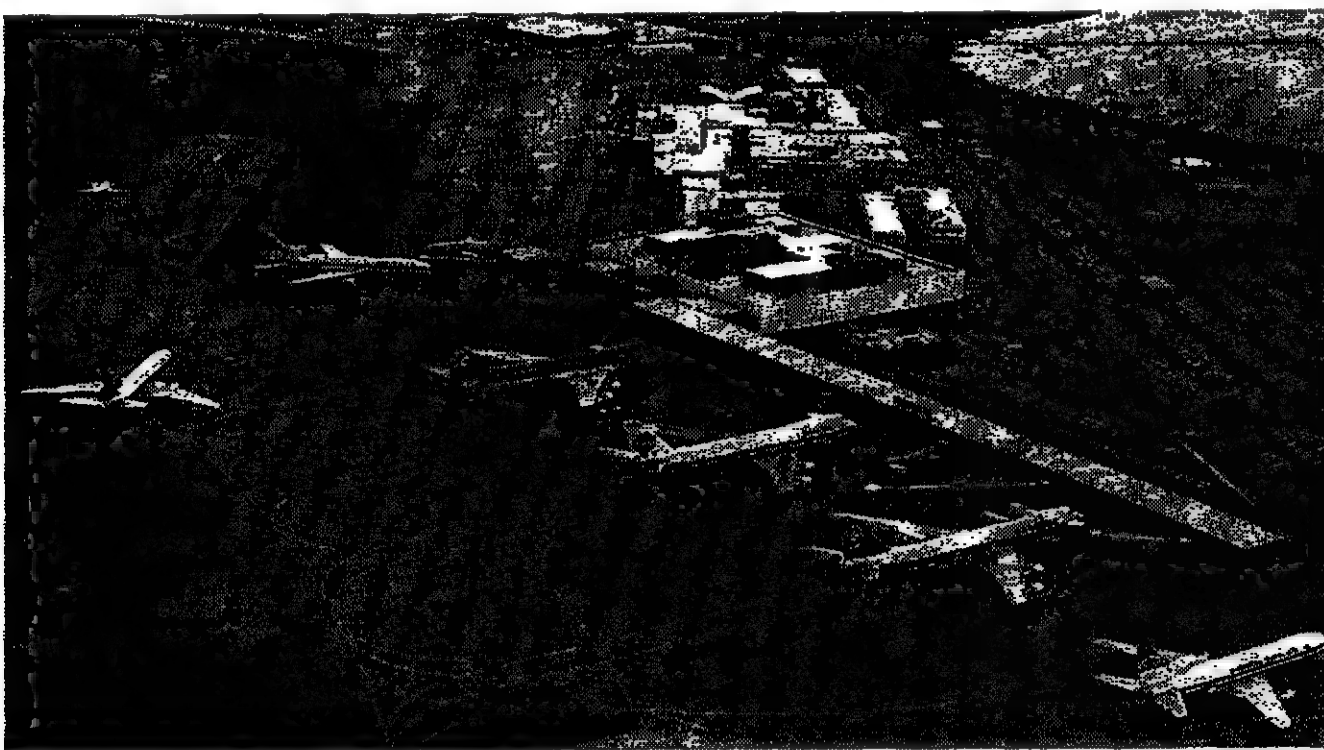
duty free, while Dutch residents have to pay VAT.

Duty free sales through Schiphol were some Ecu150m in 1988, according to the Netherlands Economic Institute. It estimates that if duty free sales were lost to intra-EC travellers, then the shopping centre's profits would fall by more than a third and up to 200 jobs put at risk.

"Like many other companies, we approve of the move towards European unity and think that opening European borders can have a positive effect on some sectors of European transportation," says an airport spokesman.

"Schiphol, however, considers that duty free purchases at airports cannot be divorced from fiscal harmonisation. So duty free sales should not be abolished until there is true harmony of VAT rates and duty throughout the EC."

David Churchill



Shannon opened the world's first duty free shop in 1947, a few years before jet airliners entered service

PROFILE: SHANNON AIRPORT

Better placed than others

THE Boeing 707 parked on a remote taxiway at Shannon Airport looks forlorn. The four jet engines have been removed for spares and the old aircraft is unlikely to fly again.

Like the 707, with its Nigerian Airways livery peeling in Irish rain, the airport is in danger of having some vital components removed - its duty free concessions.

Shannon opened the world's first duty free shop in 1947, a few years before jet airliners entered service. It catered for travellers who disembarked in the Republic while their aircraft refuelled before and after Atlantic crossings.

The airport, however, is likely to lose 40 per cent of its duty free customers if the European Community presses ahead with plans to end concessions for passengers travelling between member states.

Mr Jim Kelly, who manages the duty free area, fears a large drop in income if passengers are unable to buy discounted liquor and tobacco. "Our profits will not be as good, especially as passengers from the US going on to Europe will not be able to buy duty free," he says.

Shannon will not be hit as hard as the airports at Dublin and Cork by the EC proposals, according to Aer Rianta, the Irish airports authority.

The County Clare hub has a guaranteed in-flow on non-EC passengers from the US following the Irish government ruling that there should be a compulsory stopover at Shannon. The decision by Aeroflot, the Soviet carrier, to use Shannon as a refuelling stop on its central and south American routes brings in other customers.

Mr Fran Clun, of Aer Rianta in Dublin, says: "The ending of concessions will have less

impact on Shannon than Dublin and Cork."

Cork Airport relies on duty free income to break even and airport managers fear the end of airside discount shopping will push it into deficit.

Mr Clun estimates Aer Rianta profits will drop by E12m (E12.72m) if duty free concessions are ended. "Half our profits would disappear overnight," he says.

Aer Lingus, the Irish state airline, meanwhile, wants to

oversee companies, including Aeroflot, and US and Japanese businesses have set up bases near the airport.

Distribution companies operating in the area - which will not be affected by the EC proposals - pay only 10 per cent corporate profit tax.

Aer Rianta, meanwhile, has joined forces with other duty-free operators to lobby politicians and officials in Brussels, where it hopes plans to end concessions will be abandoned.

Shannon Airport will not be hit as hard as the airports at Dublin and Cork by the EC proposals

end the anachronism which means New York-Dublin flights have to land in the west of Ireland. Aer Lingus hopes to begin some direct flights between the Irish capital and the US next year.

The loss of the transatlantic stopover would be a further blow to Shannon, which will miss its US customers.

The duty free shop is thick with Irish-American souvenirs such as sweatshirts thick with shamrocks and the slogan "I've got Irish roots". A painting of president Kennedy's arrival in Shannon hangs by the departure gates and the US authorities have opened their first European immigration area in the terminal.

Shannon, however, will be protected from the loss of duty free income by its protected position as an open trading zone, according to an Aer Lingus spokesman.

The move to attract business to south western Ireland has paid off, with about 100 companies moving to the Shannon area employing a workforce of some 5,000 people. A number of

ideas, says Mr Clun, was prompted by president Gorbachev's moves to open the economy.

"When perestroika arrived we suggested we could run a duty free shop. Now we have a number of outlets at the arrivals and departures areas of Moscow airport," he says.

Aer Rianta's E30m annual turnover in the Soviet Union now exceeds its turnover in Ireland. And recently, the Irish airports authority opened the first duty free shop at the Soviet-Finnish border and plans to operate other outlets in Tashkent, Kiev and elsewhere in eastern Europe.

The competition for the new outlets will be fierce and Mr Clun expects rival bids from Lufthansa, the German airline, Pan Am and the US, Alders of the UK and a number of Japanese trading houses.

Aer Rianta, however, claims it has a head start with its existing joint ventures, in which it has a 49 per cent stake. The political stance of the Dublin government has also helped the Soviet deals, according to Mr Clun.

In Ireland, the company plans to minimise the impact of the proposals to end European duty free shopping, which it says will cost 300 jobs at Shannon, Cork and Dublin.

Both Mr Jim Kelly at Shannon and Mr Fran Clun in Dublin want to develop "landside" shopping at airports. The future of Ireland's airports, they say, lies in developing shopping malls for visitors where tax-paid goods will be on sale.

"The market will change after 1992," says Mr Kelly. "The competition will be downtown shops."

Tim Burt

TOBACCO

A crack in the shop window

AIRPORT lounges, in-flight magazines, and duty free shops have for years acted as show cases for the tobacco industry. International brands can display their cigarettes in a beneficial environment unhampered by the health warnings imposed within member states.

It is the loss of this exposure, rather than a drop in revenue, that would most affect the industry should duty free be abolished in 1992.

"Duty free acts as a shop window for our products," says Mr Keith Spinks, industry affairs manager for Rothmans, Switzerland. "It is a key merchandising area for us where we can have our products well displayed. It is a superb marketing environment."

For this reason the tobacco industry sees the duty free market as a significant stage for the market penetration of international brands.

The importance of duty free sales to the total turnover of international tobacco companies is minor. Tobacco duty free sales account for less than 2 per cent of all tobacco sales in the EC in volume terms.

However, tobacco contributes a very significant proportion of the duty free industry's total profits. According to British American Tobacco, tobacco accounts for about one quarter of the total turnover of duty free sales.

The company adds that another factor which contributes to the disproportionate significance of tobacco products in the duty free market is their high contribution to the profits of duty free operations. It is above their proportion of turnover because operators derive a higher margin from them than for many of the other products.

According to BAT, duty free tobacco shoppers do not purchase on an occasional or impulse basis. They do so primarily for personal consumption on a rational basis that takes into account the amount that they save.

A survey by the Netherlands Economic Institute estimates that the abolition of duty free would result in a fall of 60 per cent of duty free sales of tobacco products within the EC at manufacturers' prices - about Ecu120m. This would result in a 20 per cent reduction in duty free sales world wide.

However, according to the survey, it is probable that tobacco sales lost in the duty free business will almost entirely be recovered within domestic markets.

Manufacturers will be able to recover 90 to 100 per cent on domestic markets which would mean a maximum loss to the industry of Ecu20m.

BAT agrees: "Should duty free be discontinued, tobacco sales will almost totally transfer from the duty free to the duty paid environment with little or no impact upon overall

Community tobacco consumption because smokers will continue to purchase what they require for personal consumption," says Mr Paul Bingham, who works in marketing at BAT.

However, the industry is agreed that as a marketing opportunity duty free is valuable and something which the industry is loath to give up.

"Duty free is the shop window for many high quality European products with considerable uptrading by shoppers," says Mr Bingham. "Should duty free disappear, the challenge to all suppliers is how will they market these products effectively?"

He adds that it is wrong to assume that duty free sales will be replaced by duty paid sales in the same outlets at airports, ferries and on aircraft.

"If operators think that shoppers will continue to purchase the same quantity of tobacco products on a duty paid basis then they are living in a charmed world," says Mr Bingham.

"Trading-up", whereby people who smoke a cheaper,

The tobacco industry sees the duty free market as a significant stage

generic brand of cigarettes buy a more expensive brand in a duty free shop, could be a significant loss to the industry. Generic brands such as those sold by supermarkets in Britain, cannot be bought duty free.

"The overall volume of sales probably won't change. People smoke a given number of cigarettes per day willy-nilly," says Mr John Webb of Rothmans International.

"However, brand makes may change," Mr Webb also predicts that cigar sales may suffer as a result of duty free abolition.

The top selling cigarette brand for UK duty free sales is Benson and Hedges, followed by Silk Cut, then Marlboro. In Europe as a whole the biggest selling brand is Marlboro. But will any of these brands really suffer if duty free is abolished?

"Probably not," says Mr Webb. "If you are a Marlboro smoker and you go to France when there is no duty free. Well you will simply buy your Marlboro in France instead."

"Someone who smokes a cheap brand in the UK might at the moment upgrade and buy Rothmans - when they travel. If duty free is abolished they will simply buy a cheap foreign brand when they go abroad," he says.

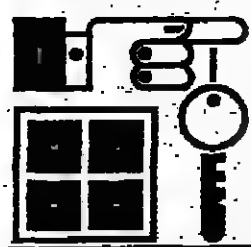
"So, in overall volume we won't suffer but in terms of trading up we might suffer."

Emma Tucker

ITALIAN CONSTRUCTION INDUSTRY

SECTION IV

Monday October 8 1990



Changing economic and political forces would seem to point to a significant rationalisation of a

fragmented national construction industry dominated by small, family-owned companies. However, as Andrew Taylor reports, large scale reorganisation is unlikely

Industry at a crossroads

THE ITALIAN construction industry has entered the 1990s at a crossroads in its development.

The strong growth in demand for buildings and public services experienced at the end of the 1980s is likely to give way to a more difficult period for contractors and building material producers alike, as public and private investment comes under increased pressure.

How companies respond to these pressures, and to increased international competition, will determine the shape of the industry over the next decade.

Italy's construction output, in constant 1980 prices, rose from L45,717bn in 1987 to L47,958bn last year - an increase of almost 5 per cent, according to Associazione Nazionale Costruttori Edili (ANACE), the Italian construction industry trade federation. Last year output rose by 3.6 per cent compared with a 3.2 per cent rise in Italy's gross domestic product.

Growth in construction, however, is expected to slow over the next two years and may even decline in some parts of the building industry.

Changing economic and

political forces point to a significant rationalisation of a more than usually fragmented national construction industry dominated by a large number of small family owned companies.

These small business, however, will not relinquish their independence easily.

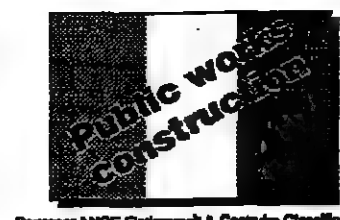
The biggest single obstacle to growth in an industry heavily committed to public works is the Italian Government's urgent need to restrain the mounting public sector debt.

This amounts to one million billion lire, equivalent to Italy's GDP. The annual budget deficit is about 10.5 per cent to 11 per cent of GDP.

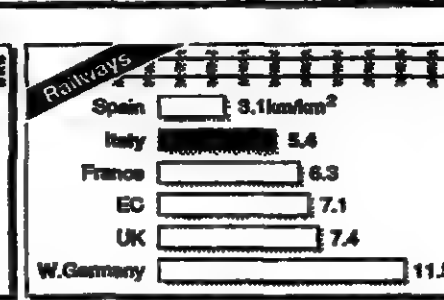
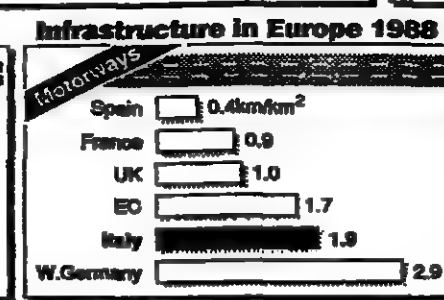
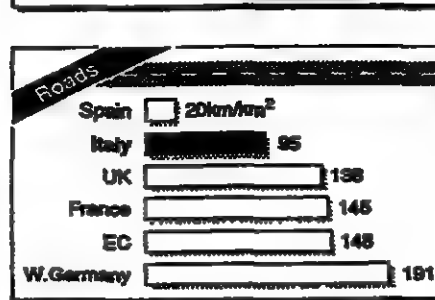
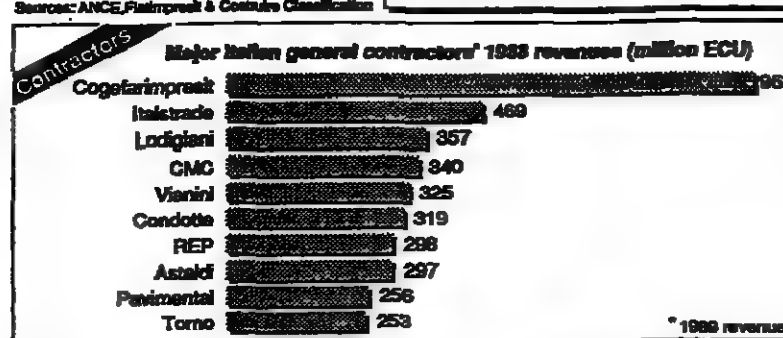
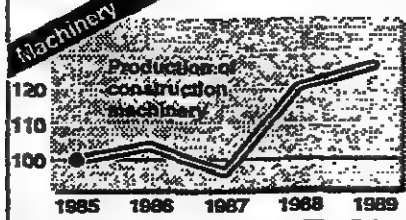
The Government has initiated a programme to stabilise the outstanding debt from 1981 through a programme of higher taxes, sales of public assets and reduced expenditure.

The fear is that it will be unable to make sufficient inroads by cutting current expenditure and that major capital programmes will start to suffer from increased delays and postponements.

The Government, in a bid to keep a tighter grip on public expenditure and reduce the



Source: ANACE, Fideuram & Contrada Classification



inefficiency, graft and fraud which has restricted investment in southern Italy, is also attempting to bring control of expenditure back to the centre and away from local authorities.

There are more than 14,000 local and state organisations with the authority to make public investment in construction, according to ANACE.

The system is fragmented and often highly inefficient. Orders are often placed on the basis of local contacts rather than on price or ability to complete works on time and to budget.

People in parts of Naples are still living in temporary accommodation ten years after the earthquake which devastated the area.

The intervening period has been characterised by great arguments between local authorities over how the public money should be spent and, it is alleged, by a phenomenal

leakage of funds into organised crime.

Smaller Italian construction companies could suffer if the Government succeeds in its plan to bring greater central control over public spending particularly.

The Government, however, will find it very difficult to break down the power of the politically strong regional and local authorities.

Private investment, like public spending, has risen during the last few years. Private house and flat sales and prices have increased sharply as prosperity has risen.

Office and industrial investment is also high, reflecting both the revival of the domestic economy and increased inward investment by overseas companies in Italy.

There is concern that private investment in residential and commercial property could weaken as fears of world recession have mounted and inter-

national interest rates have risen steeply over the past 12 months.

The crisis in the Gulf created by Iraq's invasion of Kuwait adds to the uncertainty about which direction the market will take.

The dismantling of trade barriers between European Community countries in 1992 should, in theory, increase competition in domestic construction markets while simultaneously pressure for rationalisation.

One of the most striking features of Italian contractors is their relatively small size in terms of turnover, numbers of employees and capital employed compared with some of the large, diversified construction companies found in other European countries.

Scossera, an independent research organisation for the construction industry, estimates that there are more than a quarter of a million Italian

contractors, of which more than 40,000 can bid for public sector contracts.

Cogefarimpresit, controlled by Fiat, the largest private construction group in Italy, is considerably smaller than some of the large diversified British and French contractors it competes against in international markets.

One of the reasons given for the merger of Cogefar with Fiatimpresit, at the end of last year, was the need to attain a larger critical mass required for it to compete in the new European market.

There are several reasons, however, why the merger is unlikely to be the precursor of a large scale rationalisation within the construction industry.

The vast majority of contractors, including some of the sector's largest companies, are family owned or controlled. These families will guard their independence jealously

and are unlikely to sell or purchase stakes in rival companies.

For the same reasons, this will make it difficult for other contractors in other European countries to gain a foothold in the Italian market by acquiring strategic stakes in local contractors.

French and German construction companies, in particular, are accustomed to developing complex cross holdings to cement co-operation agreements.

Mr Richard Hopewell, a construction analyst with Swiss Bank, says: "Most Italian family company directors see total ownership as the only way to guarantee continued control since the sale of a minority stake to raise extra capital could easily create problems for later generations."

Personal contacts are essential at regional and local levels. Nepotism is rife.

Mr Giovanni Lalli, managing director of Benta, the UK construction arm of the Milan based construction group of the same name, says: "The Italian way of building a relationship in business is primarily based on personal trust and reputation. In the UK, consideration of a company is sometimes limited to its balance sheet and this may give a misleading impression."

Overseas markets have also become more difficult for Italian contractors.

Their share of international orders has declined as demand for large scale civil engineering projects in developing countries has diminished.

It is in these markets that Italian contractors have been strongest.

All of which points to harder times ahead for the construction industry.

Demand for improved transport, cleaner water and better medical services in Italy, however, remains high and it will be difficult for the Government to cut these and other infrastructure programmes.

It will also be difficult for the Government to wrest financial control away from powerful local authorities.

There is increased pressure for rationalisation within the construction industry, but change is likely to be evolutionary rather than revolutionary.

IN THIS SURVEY

■ The public sector: the outlook for public works construction, crucial to the industry, is uncertain

■ Tendering: with more than 12,000 public bodies awarding contracts, the trade federation ANACE is calling for the rules to be tightened



Riccardo Piss, president of the trade federation ANACE

■ Profile: Hamlet, an influential intermediary Page 2

■ Foreign contracts have been an important source of revenue, but Italy's share of international orders has fallen

■ Profile: Fiat's armoury includes Italy's largest private sector contractor Page 3

■ Maserati: Italy has the world's sixth largest steel industry and is the biggest cement producer in the EC. But producers say they face an import invasion

■ Profile: Todini has made a name for itself through its work in helping to preserve medieval towns Page 5

■ Organised crime: the Mafia has used the construction industry as a means to gain influence and provide a legitimate cover. Can its grip be broken?

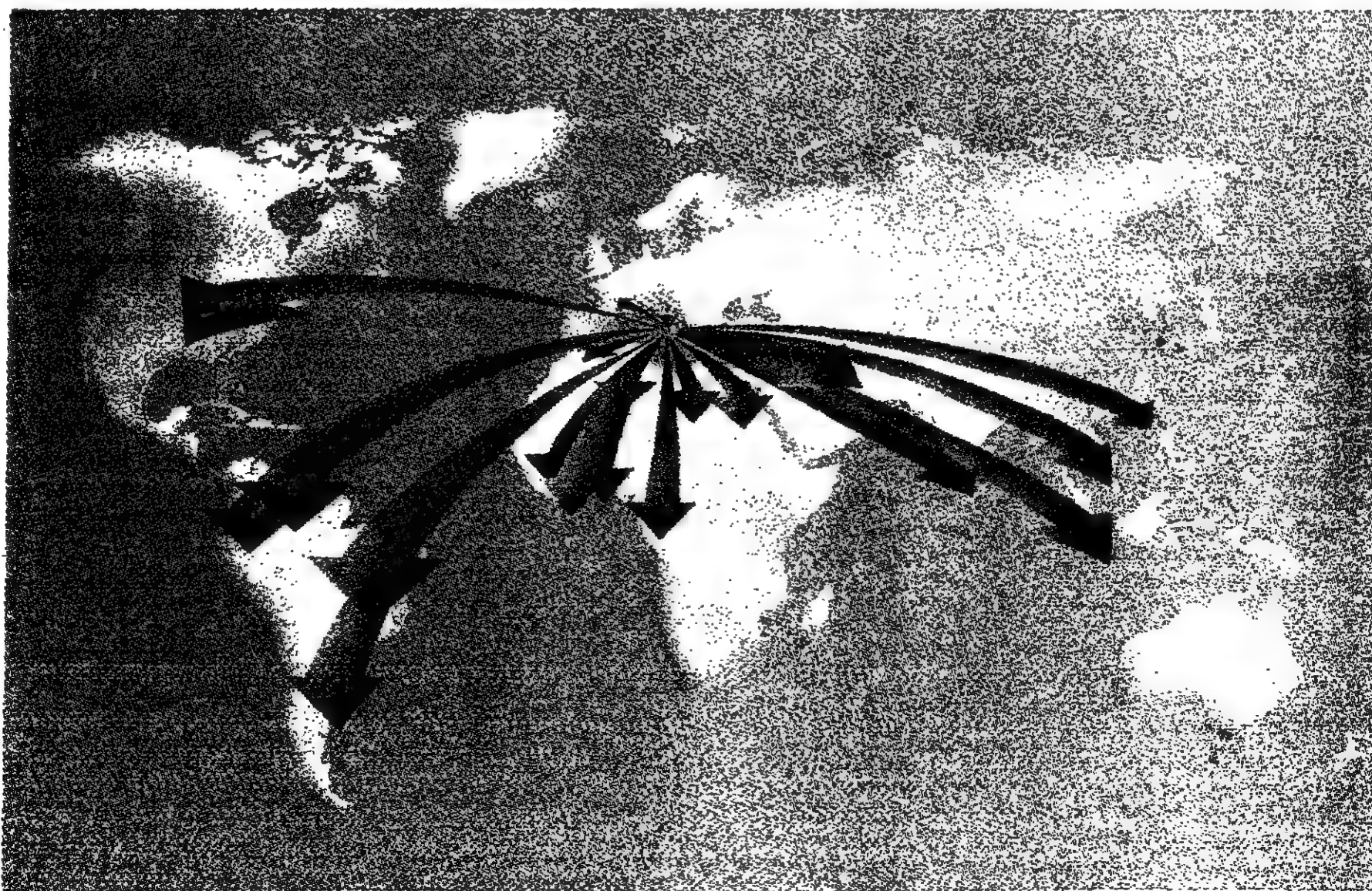
■ Housing: building has risen sharply in the past two years as the economy has grown

■ 1990 Related Surveys Page 6

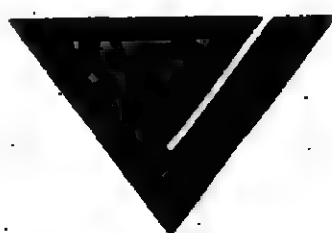
Editorial Production: Andrew Slade

WORLDWIDE GENERAL CONTRACTOR A CENTURY MADE OF ACCOMPLISHMENTS

ALGERIA
ARGENTINA
BRASIL
CAMEROUN
COLOMBIA
EGYPT
FRANCE
GABON
GUADALOUPE
HONG KONG
IRAK
IRAN
ITALY



IVORY COAST
LAOS
LEBANON
LIBERIA
LIBYA
SAUDI ARABIA
SIERRA LEONE
SPAIN
SRI LANKA
THAILAND
TUNISIA
U.S.A.
VENEZUELA



VIANINI LAVORI S.p.A.
GRUPPO CALTAGIRONE

00195 Roma - Via Montello, 10 - Tel. (06) 396851 - Telex. 623669 - Telefax: 3598546

ITALIAN CONSTRUCTION 2

Public works may fall victim to cuts, writes Andrew Taylor

Uncertainty in vital sector

THE PUBLIC sector is crucial to Italy's construction industry, accounting for between one-quarter and one-third of output.

Excluding housing, public works will this year account for nearly 130,000 bn out of a total construction output of more than 1,000,000 bn.

However, despite ambitious spending plans for transport, health and the environment, the outlook for public construction in the 1990s is uncertain. Accurate assessments of total output and the state's share are difficult to glean in a highly fragmented industry comprising a handful of large groups and thousands of small to medium-sized, mostly private, family-owned businesses.

Financial management of public sector budgets is equally fragmented. There are

more than 14,000 local and state organisations with the authority to make public investment in construction, says the trade federation, ANCE.

The system of channeling public expenditure through politically powerful local and regional authorities, which often lack the internal management to cope with large programmes, can be highly inefficient.

Spending plans by government, nationalised industries, state and local authorities are seldom met.

"The investment programmes approved by parliament are not real spending targets. Nobody expects them to be met. This year public works are planned to cost about 150,000 bn. Actual expenditure will be about two-thirds of

that", says one of Italy's largest civil engineering companies.

In a bid to tighten its grip on public expenditure and reduce the inefficiency, graft and fraud which has stymied plans to increase investment in the south, the government is trying to wrest control back from local authorities.

This could cause problems for smaller construction companies, whose strength is often based on good local political contacts.

Contractors are also worried about government plans to stem the mounting public sector deficit, which at one million billion lire is broadly equivalent to Italy's gross domestic product.

The government plans to stabilise the outstanding debt from 1991 through higher

taxes, sales of public assets and reduced expenditure.

The aim is to reduce current rather than capital expenditure, although experience elsewhere suggests that this is easier said than done. In practice, it is simpler to postpone or delay capital programmes than cut jobs and wages.

Contractors fear that having risen steadily during 1988 and 1989, public expenditure will flatten over the next few years and could even dip slightly.

Ecosfera, an independent research organisation, is less pessimistic. It says the need for investment in transport, the environment and medical facilities is such that it will be difficult to cut programmes.

Investment in railways, for example, was badly neglected during the 1960s and 1970s, when transport spending was

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990* | 1991* |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|
| New residential | 21.51 | 20.52 | 19.53 | 19.50 | 20.78 | n/a | n/a |
| percentage change | -4.34 | -4.8 | -4.85 | 1.91 | 4.42 | 3.1 | 1.0 |
| New private non-residential | 8.91 | 8.10 | 9.30 | 9.79 | 10.66 | n/a | n/a |
| percentage change | 0.54 | 2.14 | 2.26 | 5.28 | 8.74 | 3.9 | 3.7 |
| New public non-residential | 2.78 | 2.90 | 2.93 | 2.96 | 3.10 | n/a | n/a |
| percentage change | 1.77 | 2.90 | 0.97 | 1.67 | 3.96 | 0.8 | 1.5 |
| Civil engineering | 10.46 | 10.79 | 10.85 | 10.92 | 11.29 | n/a | n/a |
| percentage change | -0.22 | 3.21 | 0.53 | 0.71 | 3.36 | 3.0 | 2.3 |
| Renovation and modernisation | 28.88 | 29.57 | 29.90 | 30.00 | 30.24 | n/a | n/a |
| percentage change | 4.19 | 2.73 | 0.77 | 0.34 | 0.80 | 0.0 | 0.0 |
| Total construction | 72.45 | 73.22 | 72.45 | 73.35 | 76.00 | n/a | n/a |
| percentage change | -0.47 | 1.07 | -1.06 | 1.24 | 3.61 | 2.2 | 1.5 |

*Forecast. Promotional and central costs included, routine maintenance excluded. Source: Ecosfera

heavily weighted towards roads. Most contractors expect the railway programme to go ahead.

The government, according to Ecosfera, plans to spend 1,200,000 bn over the next few years on modernising and improving the rail network. It estimates that about two-thirds of this will be spent on public construction works, including high speed rail links.

Investment in roads, for which there is growing pressure, is also important to public sector contractors. Construction of a new motorway between Civitavecchia and

Livorno recently got under way - the first new motorway to be started in Italy for some five years, according to Ecosfera.

Spending by ANAS, the national roads authority, is expected to rise by between 9 and 10 per cent this year, Ecosfera says.

Mr Giovanni Prandini, minister of public works, recently called for a 1,120,000 bn programme to upgrade and expand the motorway network. Contracts are expected to be put out to tender shortly for the Autostrada del Sole

and their technical content. Notwithstanding the EC requirement that lowest cost will be the basis of adjudication after 1992, the current preference is for a method that not only requires firms to invest resources in formulating bids that are not based solely on price, but also involves subjective judgement.

This, coupled to pre-selection, explains why the ministry cites litigiousness as a reason for delays. Others are lack of finance and difficulties in co-ordinating the various authorities that have to give approval or approve projects.

In order to short-cut the bureaucracy, an accelerated procedure known as a "conferenza del servizio", in which the views of all relevant authorities are gathered in one place and at one time, is being tried.

Delays in payment are not, however, a problem for contractors. This year the Treasury set 10 per cent as the maximum advance payment, due on effective commencement of works. Delays in stage payments, based on inspectors' reports, incurred interest charges of 14.5 per cent in the year to 31 August.

motorway between Florence and Bologna, which has been damaged by heavy traffic, says Ecosfera.

Spending on hospitals and other health facilities is set to rise from 1,000 bn to 1,300 bn over the next 12 months, according to Ecosfera forecasts, while spending on the environment is also predicted to rise sharply.

However, Ecosfera expects funding for local authority programmes to fall sharply as the government pursues its goal of greater central control over spending.

John Simkins on an ambitious project in Rome

Poised for take-off

THE EXPANSION of Rome's Leonardo da Vinci airport at Fiumicino, which expects to handle 18m passengers this year but which has a terminal only half the required size, is one of Italy's most pressing public works projects.

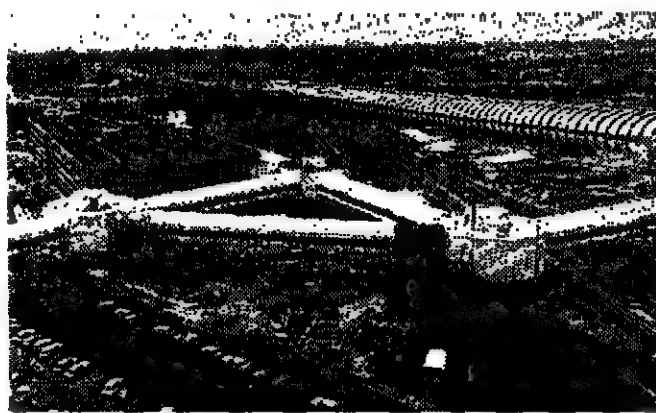
In time for the World Cup, the airport built a waiting-room complex, multi-storey car park and mechanised pedestrian skywalks, and enlarged the domestic and international departure areas. This is only the start of an ambitious plan, costing approximately 1,500,000 bn (12.4bn), to upgrade the airport by the year 2000 and cater for an expected 30m passengers.

"It is the first serious and organized plan to expand the airport since Fiumicino was built in 1961", says Mr Maurizio Foschi, the airport planning and development director of Aeroporti di Roma, the fourth largest in Europe which also includes the part-military, part-civil Ciampino airport to the east of the city.

Passenger traffic at Fiumicino, to the west of Rome near the Mediterranean coast, is increasing at 8 per cent per year, compared with the 6 per cent forecast on which the master plan is based.

The plan calls for two new departure and arrival piers (work has already started on one) and two satellites, as well as a new three-tier terminal combining the domestic and international terminals, which are currently separated. Road access and parking will also be improved.

The government has allocated 1,300bn for expansion and the airport, enjoying its fourth consecutive profitable year and making a gross profit of 8 per cent on an annual



Pedestrian skywalks at Rome's Fiumicino airport

turnover of around 2340m, expects to spend 1,500bn of its own resources over the next six or seven years.

So far all contracts have been put out to tender and, given the enormous costs, there will be scope for private sector investment, particularly in areas such as cargo handling. There have also been talks with the private sector about building a hotel.

However, Ciampino, with 220 hectares and one runway, can grow no more: noise pollution problems prevent further development.

Mr Foschi and his colleagues are therefore looking at a further plan for Fiumicino for the year 2030, by which time passengers are expected to total 60m per year. This would involve two more runways, increasing the size of the complex from its present 1,500 hectares to 4,500 hectares.

A good start has been made - Italy's airports were the only entity to complete their World Cup plans on schedule

— but an important opportunity to provide good rail links to the heart of Rome has been missed.

After much rivalry, the railways body, rather than the metro, won the contract to build and manage the link between Fiumicino and the nearest underground station of Ostiense, which is at the end of one of Rome's two inadequate metro lines. Passengers must change at Ostiense - they cannot go directly from the airport to the city centre. Information is poor (Ostiense station is also confusingly described as Piramide) and taxi drivers - who have had a near-monopoly on ferrying passengers to the city - are boycotting Ostiense. The new rail link has also been poorly advertised and a large car park at Ostiense remains practically empty.

Mr Foschi is well aware of the rail link's defects. "But it has to work", he says. "The rail link will be important because of the programme of work we have in mind."

WITH 13,000 public bodies awarding construction contracts, keeping up with the play is a sizeable task for companies.

The Ministry of Public Works says that calls for tenders must be published either in Italy's official gazette or in those of the regions. Notification is required in the official gazette of the European Community for works exceeding 50m Ecu. Generally the same announcements are made in three major Italian daily newspapers, these appearing before publication in the official gazette.

Many contractors use information agencies, which provide computer-based daily updates of calls for tender, to receive details only of projects in which they might be interested.

Requests for pre-selection must be made within 21 days of publication of the call for tender in the official gazette.

The ministry notes that pre-selection is carried out from the firms that ask to participate and which satisfy technical and financial requirements. However, the constructors' association, ANCE, says that

David Lane analyses the tendering process

Tighter rules urged

too many contractors enter pre-selection.

"For small projects as many as 400 firms will reply. This creates an enormous workload", says one ANCE official.

Revision of the ministry's roll of national constructors' ("Albo Nazionale dei Costruttori") should reduce the number of firms qualified to respond. Inscription in one or more of 20 different categories on the roll, with indication of the maximum value of contract that may be undertaken, is a prerequisite for firms replying to calls for tender.

New rules introduced in May 1989, were followed in April by a ministerial circular providing clarification and amplification. "The aim is that a firm's inscription will again have the precise meaning of ascertained and secure financial, technical and organisational reliability", says ANCE.

The new criteria include pay-roll, operational structure and turnover. ANCE hopes that stringent application of tighter inscription and qualification rules will eliminate the large number of "shell" companies that have obtained inscription in the past, subsequently winning contracts and operating solely as intermediaries, with subcontractors doing all the work.

Cleaning out the "albo" is unlikely to be completed quickly. ANCE notes, however, that positive results have been obtained since the new regulations came into force.

"Previously all firms that responded to calls for tender, satisfying documentation requirements and with the appropriate listing on the 'albo', had to be allowed to bid. If excluded, 'shell' companies could, and did, appeal to the courts and the whole tendering

process was invalidated and had to be repeated", says an ANCE executive.

He adds that the heavy overcrowding characteristic of tendering for public works contracts led to considerable delays. Weeding the roll and further reducing the number of firms that qualify by tighter definition of participation should ease the problem.

Success in pre-selection has been a matter of form rather than substance. Presentation of documentation varies from one public agency to another, but generally includes certificates of inscription on the roll, details of work undertaken in the preceding five years, financial statements for three years and bank references.

Adjudication is based either on lowest offer or on a complex evaluation that takes account not only of price but also of the time to complete the works

PROFILE: ITALSTAT

Strength in depth

tender to the private sector. The remainder is carried out by Italstat subsidiaries.

This arrangement is not popular with some large contractors, however, who resent the preferential treatment which they say state authorities give to Italstat. Fiat subsidiary Cogefar-Impresit, the biggest private contractor, says it would prefer to bid at an earlier stage, allowing it to offer clients a complete package. Italstat's most important

role is as an operator of toll roads (Italy has the most highly-developed network in Europe) and motorways. It operates 80 per cent of Italy's 6,000 km of toll roads under government concessions and claims to be the world's largest operator of motorway toll roads.

The division which houses the numerous Autostrade motorway operating subsidiaries achieved a turnover of 1,200bn last year, accounting

for 38 per cent of Italstat's 1,555bn turnover. The general construction division, including motorway building, had a turnover of 1,140bn last year.

Italstat also claims to be Italy's largest civil engineer. As with roads, about 80 per cent of the work is put out to tender to the private sector.

In international markets, Italstat has been at the forefront of Italy's attempts to break into eastern European markets. It is working on feasibility

studies for the restoration of two Soviet cities and for a motorway between the Finnish border and Moscow. Italstat also has contracts worth 1,500bn for the repair and maintenance of motorways and airports in the US, while a subsidiary is part of a consortium of UK companies bidding to build Britain's first privately-financed motorway toll road.

The group is restructuring operations by reducing and merging some of its operating subsidiaries and floating off minority stakes in some businesses. The concern currently operates from 140 separate subsidiaries, with a high degree of overlap between some of them.

Andrew Taylor

SNAMPROGETTI, the international engineering contractor and technology company of the ENI Group, is working worldwide on the development, design and construction of industrial facilities and associated infrastructure which include pipelines and plants for offshore processing, refining, gas treatment, fertilizers, chemicals, metallurgical processing and waste treatment.

SNAMPROGETTI
WHERE
CREATIVE
TECHNOLOGY
ADDRESSES
THE FUTURE

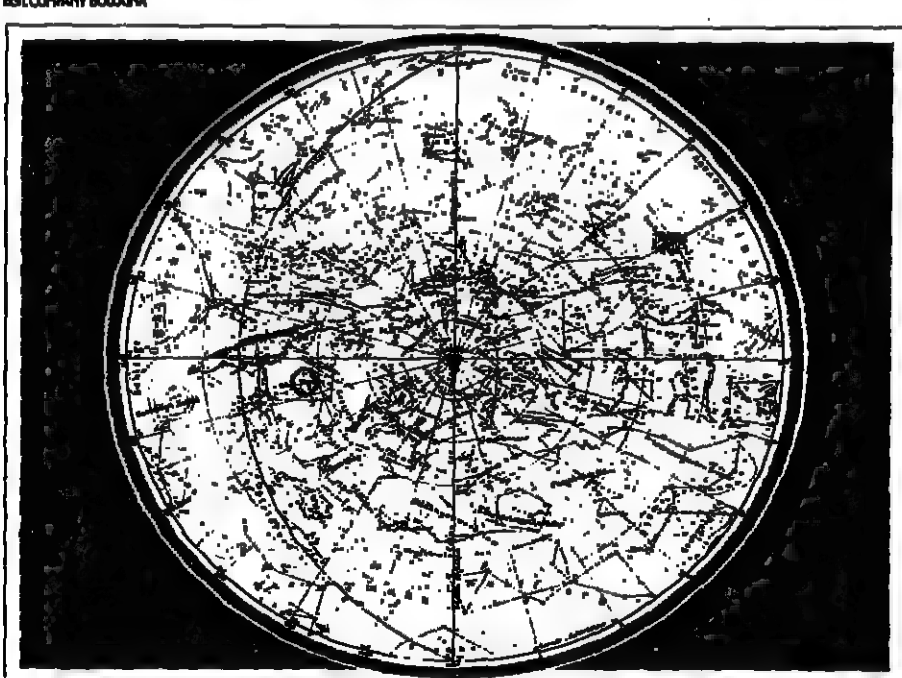
With a background of more than thirty years of professional experience, SNAMPROGETTI is able to offer its clients highly qualified services and support covering a range from individual packages of integrated services up to complete "turnkey" projects.

The scope of these services for most projects includes: technical and economic feasibility studies, conceptual design, project financing arrangements, commercial and technical management, basic and detailed engineering, risk analysis, procurement, quality assurance, construction, training of skilled workers and plant operators, plant start-up and operations, product marketing assistance.



Snamprogetti
READY FOR ANY CHALLENGE
Snamprogetti - ENI Group
San Donato Milanese - Italy
London, Geneva, New York, Moscow, Caracas,
New Delhi, Beijing, Riyadh, Lagos.

RECONSTRUCTION



We build things thinking of everything around them.

Building means improving the environment we live in. That's why Edilte is organized so as to bring together the skills of working and building and the skills of co-ordination and management, always working out the most appropriate solutions for a society which aims at the right kind of growth. The purpose: to create structures which are both pleasant to live in and efficient, which respect people, the environment and their needs, planning a development not just as an isolated event, but as part of a much larger and more complex structure, capable of fitting into a setting and improving it. Communications, transportation systems, technologically advanced corporate and residential centers, integrated commercial and industrial areas, all these developments are conceived and created by Edilte with the greatest respect for the environment and designed to improve the areas we live in and the quality of our lives. In a civilization where innovation and thought are the foundations of development, Edilte is growing and changing, placing people at the center of things.

EDILTE soc. coop. a.r.l. - 40129 Bologna - Via della Cooperazione, 21
Tel. 051/521036/5211383 - Telex: EDILTE I 511894

EDILTE
CONSTRUCTION STRATEGIES

Story of a Company

Established over 40 years ago, SCI S.p.A. is one of the major Italian construction and real estate organizations.

SCI's activity widely ranges from office buildings to housing, from industrial buildings to vacation resort and to public works.

SCI is a full service organization with knowledge and experience in all facets of real estate: from investments analysis to financing, from construction to marketing.

SCI has also been active in the international market. Its real estate experience and construction and engineering know-how are exemplary of a world class organization.

SCI

inside the future of the city

SCI S.p.A., via De Marini 1, 16149 Genova
GENOVA - ROMA - MILANO - NEW YORK

Foreign orders have declined, writes Andrew Taylor

Overseas contracts suffer

ITALIAN contractors, among the most aggressive competitors for overseas orders, suffered during the 1980s as markets shrank and emerging countries developed their own contracting businesses.

Although the value of overseas orders leapt by 70 per cent to L3,200bn last year, that is still well below the previous peaks of almost L5,000bn in 1981 and L4,500bn in 1985. The Gulf crisis can only make matters worse. Many Middle East contracts will have been cancelled or postponed.

Italian contractors, heavily orientated towards public works at home, developed skilled teams accustomed to working on large scale water, energy, transport, industrial and environmental projects required by developing nations and oil rich states during the late 1970s and early 1980s.

During this period, the Italian government also stepped up its international aid programme, which was often tied to the award of contracts to Italian companies.

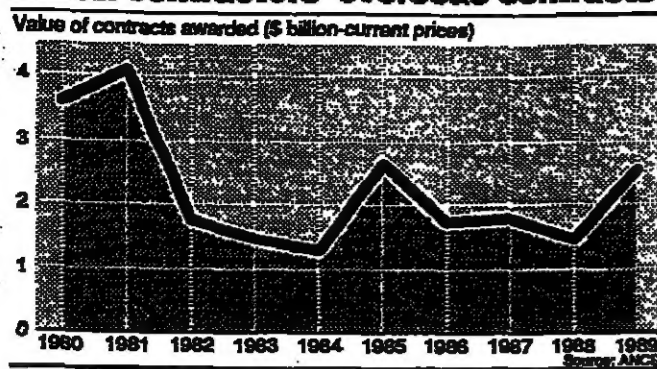
Italy's share of international contracts, however, has fallen in recent years. A recent survey of the overseas activities of the world's 250 largest construction companies shows that France overtook Italy as Europe's biggest international contractor last year. Italian companies won about 9.6 per cent of cross-border contracts awarded last year, according to the international construction magazine, ENR.

There are several reasons for the relative decline of Italian contractors in foreign markets:

- developing nations - Italy's biggest markets - can no longer afford to invest in large scale infrastructure projects;
- aid budgets of international organisations such as the World Bank have moved away from investment in new projects to trying to stem the Third World debt crisis;
- there is competition from emerging construction nations such as Korea, Taiwan and Japan, which offer finance as well as construction skills;
- richer developing nations which invested in massive infrastructure projects during the 1970s have been looking for secondary investment in smaller private projects.

The large Italian companies

Italian contractors' overseas contracts



which work overseas are less skilled in these areas:

- Italian companies have less experience in promoting privately financed infrastructure projects, an increasingly important alternative to state expenditure in both developing and industrialised countries. Italian companies' expertise has largely been restricted to public sector works at home and state- and internationally-aided projects overseas.

The decline in overseas markets has coincided with an upturn during the past two years in the domestic construction market, enabling international contractors to bring some of their expatriate employees home.

Vincenzo Laveri, one of Italy's largest contractors, says it has cut overseas contracting to less than 10 per cent of turnover. International orders accounted for half of 1985 turnover.

According to the trade federation ANCE, the value of international contracts awarded to Italian contractors slumped to just under L2,000bn in 1989 - less than half the 1984 level.

The subsequent jump in

orders last year reflected a general recovery in world construction investment led by industrial nations. Europe and the Far East were the fastest growing markets in 1988 and 1989, according to ENR.

The value of Italian construction orders was also boosted by a single large contract for a hydro-electric scheme in M'Jara, Morocco. This L888bn contract accounted for 37 per cent of overseas contracts won by Italian companies last year.

Italian contractors remain heavily dependent on Third World markets. African countries accounted for 58 per cent of contracts last year, compared with 45 per cent in 1988, according to ANCE.

The average size of contract was only slightly more than L200m. Small contracts worth up to L500m accounted for 80 per cent of work won abroad.

Overseas contracts

awarded to Italian contractors in 1989 (by economic area)



by Italian companies, says ANCE.

The move towards smaller, more general building projects is also reflected in the proportion of contracts designated as building and special works, which increased from 22 per cent in 1985 to almost 40 per cent last year.

Italian companies, however, have been quick to try to break into eastern European markets where their expertise in civil engineering and experience of working alongside state organisations assist them.

Italat, the construction and infrastructure development arm of IRI, the Italian state holding company, is carrying out feasibility studies for a motorway from the Finnish border to Moscow. It is also working on similar studies for major refurbishment and modernisation of at least two Soviet cities. Other Italian companies have projects in Yugoslavia and Hungary.

European companies, on the other hand, will find it difficult to break into the Italian market, whose fragmented nature and heavy reliance on personal contacts makes it difficult for would-be purchasers.

Many companies are privately owned family businesses, jealously guarding control of the management of their companies and - unlike German and French companies - reluctant to buy and sell stakes in their operations.

For the same reason, Italian companies are unlikely to buy into foreign-owned companies unless it gives them control of management. "Otherwise it is only an investment like any other. Why not invest in Fiat for the same reason?" says one privately-owned Italian contractor.

However, this has not prevented some overseas contractors from doing work in Italy. Philipp Holzmann of Germany is building a dam in Sicily and has also worked in Turin and Rome. Balfour Beatty of the UK also recently announced a joint venture with an Italian company.

Most Italian contractors say that the coming single European market will make little difference to ordering patterns in Italy; most contracts will continue to go to Italian companies.

PROFILE: FIATIMPRESIT

Planning for Europe's single market



Antonio Mosconi, managing director of Fiatimpresit

FIAT, which includes in its armoury the largest private sector construction contractor in Italy, is directing much of its efforts to planning for the single European market.

"We believe in European unification and this is the basis of all our strategy", says Mr Antonio Mosconi, managing director of Fiatimpresit, which is wholly owned by Fiat and is the company's civil engineering arm.

In turn, Milan-based Fiatimpresit has 70 per cent of the quoted company Cogefarimpresit, formed last year by acquiring Cogefar and merging it with Fiat's own construction interests.

Cogefarimpresit topped the Italian private sector construction league last year with turnover of L1,548bn (£738m), but is dwarfed by other national leaders such as Bouygues of France, Tarmac of the UK and Germany's Philipp Holzmann.

'European unification is the basis of all our strategy'

Fiat's strategy for construction and engineering has been moulded against a background of less favourable market conditions in developing countries, brought about partly by debt.

Cogefarimpresit has thus repositioned itself so that 80 per cent of consolidated turnover comes from within Europe, mainly Italy. Excluding Italy, it has nine subsidiaries in Europe, three branches and eight associated companies.

"Our dimension [in Europe] is still small and maybe a weak point. But I hope we shall be the first company operating in Europe in the early years after 1992 to have its turnover well divided into main European countries, and not just in construction but in engineering and specialised engineering", says Mr Mosconi.

He adds that Fiatimpresit expects some difficulties operating within the single market, because public works spending is largely tied to decisions by national and local authorities which have close relationships with domestic companies.

Therefore, Mr Mosconi says, besides bidding for contracts, Fiatimpresit intends to buy stakes in European construction companies.

Its biggest venture along these lines has been to buy one-third of H&B-Huarte, a

in other industries. Within Fiatimpresit's specialised engineering divisions there are already close links with European companies.

Fisla, which Fiat claims is the only Italian company with a full range of activities in the environment field, is to set up a waste disposal joint company with Deutsche Babcock; another company, Translima, was created jointly with Matra Transport of France to build advanced transport systems; and Segesta is a joint venture with Compagnie Lyonnaise des Eaux to manage drinking-water treatment plants.

But construction remains Fiatimpresit's core activity. From the point of view of purely Italian turnover, says Mr Mosconi, Cogefarimpresit does not need to grow any more. Public works projects include two hospitals, at Catania in Sicily and Lecce near Lake Como, and work on

Fiatimpresit has set up companies in Portugal and Greece

both Rome and Milan undergrounds.

Overseas, Cogefar and Impresit, the former Fiat construction wing - have participated in projects including 70 hydro-electric plants in 35 countries, 19,000km of roads and more than 20,000 houses. Fiatimpresit is also present overseas through Impregilo, in association with two Milanese companies, Lodigiani and Grola.

However, there are two fears regarding the performance of Italian companies in Europe's single market. One springs from the fragmented nature of the industry, which means that few companies have a big financial base.

The other is that large Italian contractors have not developed the profile of general contractors, because Italy has not yet adopted a European Community directive allowing the big groups to compete for public works contracts at the first stage, involving tasks such as bids specification and feasibility studies.

In this respect, says Mr Mosconi, "the situation is changing and we think private companies will be able to have a more complete role. But we are some years behind in the learning curve."

John Simkins

40 years of sound professionalism

THE GABETTI GROUP HAS FOR FORTY YEARS INTERPRETED THE NEEDS OF THE PROPERTY MARKET. IT IS REPRESENTED IN VARIOUS SECTORS BY ITS OPERATIVE COMPANIES:

gabetti LEADER IN ITALY IN THE INTERMEDIATION OF RESIDENTIAL AND COMMERCIAL PROPERTY. **gabetti trading s.p.a.**

INVOLVED IN BUYING AND SELLING AND FURTHERING CONSTRUCTION, ALSO THROUGH JOINT VENTURES WITH IMPORTANT EUROPEAN PARTNERS.

gabetti AND **tefin** OPERATE IN THE AREA OF FINANCING (MORTGAGES) FOR PURCHASING AND/OR RESTRUCTURING PROPERTY. **gabetti leasing** OFFERS

A SERVICE OF PROPERTY LEASING. **gabetti** THE EFFECTIVENESS OF AN INCLUSIVE, OVERALL AND THOROUGH SERVICE. THE ONLY ITALIAN COMPANY IN PROPERTY BROKERAGE QUOTED ON THE STOCK EXCHANGE OF MILAN AND TURIN.

gabetti holding s.p.a.

C.S.O. MATTEOTTI, 9 - MILANO - TEL. (02) 780.611

GRUPPO TODINI



TECHNOLOGIES AND INNOVATION IN ROAD CONSTRUCTION

The Todini Group has been operating in several diversified sectors both in Italy and abroad for forty years. In the sector of construction, the Todini Group has acquired and consolidated a primary position mainly due to its activity for the improvement of road safety and the adjustment of roads to man's standards. With these aims in mind, the studies and technologies, plant, materials and resources put to use are always state-of-the-art and high quality as well as in harmony with the environment and safe for man.

1 Laboratory and Centre for Research

2 CISE PREFABRICATI Plant for the prefabrication of elements in reinforced concrete, metal or plastic materials. Contragomma (Torino)

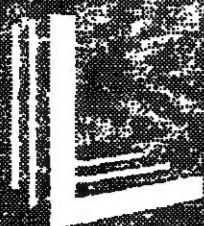
3 Mowl Green Screens (R) Noise-shielding barriers in bright green. Sole licensee: Todini SpA

4 Securifier Panels (R) Tunnel lining with light diffusing panels - patented by Enimont/Todini - and plant for the assembly - patented by Todini

5 Ecological Recycling Train - ERT (R) Plant for cold recycling of bituminous road surfaces - patented and assembled by Todini SpA

TODINI GROUP ITALY - 00142 ROMA - Via del Sordani 200

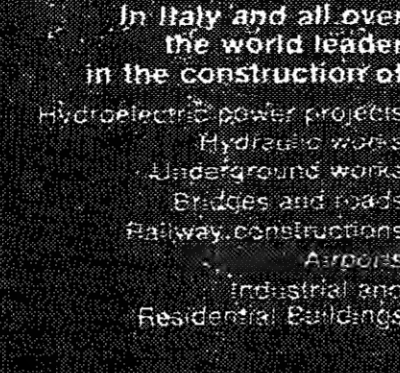
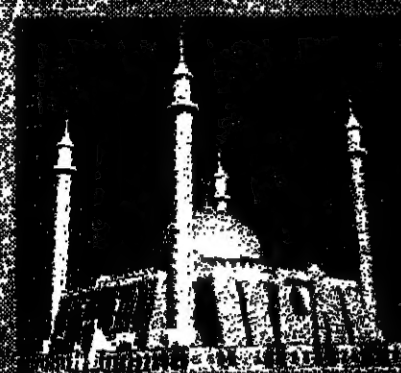
LODIGIANI S.p.A.



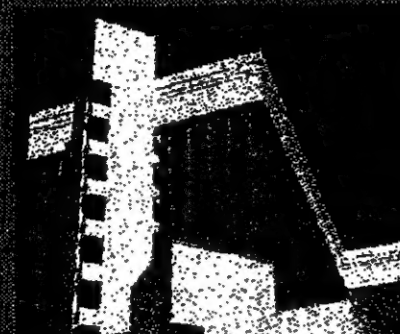
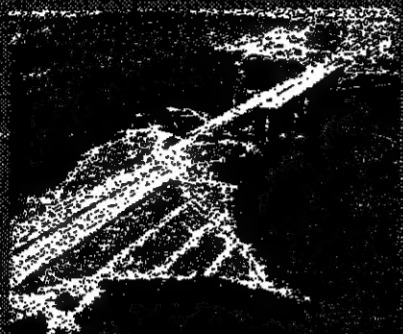
In Italia e nel mondo leader nella costruzione di:
Impianti Idroelettrici
Opere Idrauliche
Cavità Sotterranee
Ponti e Strade
Lavori Ferroviari
Aeroporti
Edifici Industriali e Civili



In Italy and all over the world leader in the construction of:
Hydroelectric power projects
Hydraulic works
Underground works
Bridges and roads
Railway constructions
Airports
Industrial and Residential Buildings



En Italie et dans le monde leader dans la construction de:
Usines Hydro-électriques
Travaux Hydrauliques
Travaux Souterrains
Ponts et Routes
Travaux Ferroviaires
Aéroports
Constructions Industrielles et Civiles



20121 Milano - Via Senato, 5 - Tel. 02/77341 - Telex 304136 IMPLD I - Telefax 02/7734245
60139 Bologna - Via S. Crescentino, 12 - Tel. 051/33941 - Telex 521185 IMPLD I - Telefax 051/3391563



COMMISSION
OF THE EUROPEAN
COMMUNITIES

IGI

Istituto Grandi Infrastrutture

IGI - ISTITUTO GRANDI INFRASTRUTTURE - IS THE ONLY MEETING-POINT IN ITALY FOR THE FOREMOST PUBLIC, PRIVATE AND CO-OPERATIVE COMPANIES OPERATING IN THE FIELD OF MAJOR PUBLIC CONSTRUCTION WORKS.

IGI IS A RESEARCH CENTRE WHICH REPRESENTS AN OVERALL TURNOVER OF ABOUT TEN THOUSAND BILLION LIRE AND A LABOUR FORCE OF 80,000. ITS AIM IS TO PROMOTE STUDIES AND RESEARCHES HAVING A HIGH SCIENTIFIC, TECHNICAL, ADMINISTRATIVE AND LEGAL CONTENT IN THE FIELD OF PUBLIC INFRASTRUCTURES.

THE INSTITUTE:

- PROMOTES THE DEVELOPMENT OF RELATIONS AND THE EXCHANGE OF NEWS AND INFORMATION AMONG MEMBER COMPANIES;
- PROMOTES AND ORGANIZES APPROPRIATE FORMS OF COLLABORATION WITH PUBLIC AND PRIVATE BODIES ENGAGED IN THE REALIZATION OF MAJOR PUBLIC INFRASTRUCTURAL WORKS AND WITH THE POLITICAL AND SOCIAL FORCES, FOR CONSIDERATION OF THE LEGAL, TECHNICAL, TECHNOLOGICAL, ECONOMIC AND FINANCIAL ASPECTS OF CONSTRUCTION EXPENDITURE PROGRAMMES;
- PROMOTES AND ENCOURAGES RESEARCHES AND STUDIES IN ENGINEERING, ON THE TECHNICAL, FINANCIAL, JURIDICAL, ADMINISTRATIVE LEVEL;
- UNDERTAKES ALL APPROPRIATE PROMOTION, SCIENTIFIC, CULTURAL AND LEGISLATIVE INITIATIVES REQUIRED FOR THE DEVELOPMENT, UPDATING AND RATIONALIZATION OF THE CONSTRUCTION SECTOR;
- ORGANIZES CONFERENCES, MEETINGS, NATIONAL AND INTERNATIONAL SEMINARS WITH THE AIM OF PROMOTING THE EXCHANGE OF KNOWLEDGE.

THE PRESIDENT OF IGI IS MR. GIUSEPPE ZAMBERLETTI, MEMBER OF PARLIAMENT; VICE-PRESIDENTS ARE MR. ADRIANO ANTONI, MR. BALDO DE' ROSSI AND MR. ANTONIO MOSCONI. SECRETARY GENERAL IS MR. FEDERICO TITOMANLIO.

IGI HAS 47 ASSOCIATES AT PRESENT, ALL HAVING THE SAME REPRESENTATIVE POWERS AND DIGNITY, DIVIDED INTO THE CO-OPERATIVE AREA (11), THE PRIVATE AREA (31) AND THE PUBLIC AREA (5). HEREINAFTER THE LIST OF MEMBERS.

| | | | |
|--|--|---|---|
| ASTALDI BONATTI C.E.R. C.M.B. C.M.C. C.M.F. SUD COGEFARIMPRESIT CO.GE.I. CONDOTTE D'ACQUA COOP COSTRUTTORI COOPSETTE DE LIETO | DEL FAVERO DI PENTA EDILCOOP EDILTER FEDERICI FERROCEMENTO FONDEILE GAMBOGI GIROLA GRAN SASSO GRANDI LAVORI GRASSETTO | GRUPPO ACQUA ICLA IM.CO. ITALEDIL ITALSTRADE ITER ITIN ITINERA LODIGIANI MALTAURO ORION PIZZAROTTI | PONTELO FINANZIARIA RECCHI ROMAGNOLI SAE SADELM SALINI TECNIMONT TODINI TORNO T.P.L. UNIECO VIANINI |
|--|--|---|---|

IGI IS ORGANIZING AN EEC LEVEL ONE-DAY STUDY SEMINAR ON "REMEDIES IN PUBLIC TENDER AWARD PROCEDURES".

THE SEMINAR IS TO BE HELD IN ROME ON 29TH NOVEMBER 1990. THE CHOICE OF THEME SPRINGS DIRECTLY FROM THE WELL-KNOWN AND VERY MARKED LACK OF HOMOGENEITY IN THE ADMINISTRATIVE AND JURISDICTIONAL CONTROL SYSTEMS AND THE APPLICATIVE ROUTINE FROM DIFFERENT MEMBER STATES, THAT HAVE ACTED AS OBSTACLES TO A CONSISTENT APPLICATION OF PREVIOUS DIRECTIVES REGARDING THIS MATTER AND MIGHT EVENTUALLY END UP BY FRUSTRATING THE RECENT CHANGES INTRODUCED BY THE NEW EEC RULES.

THE STUDY SEMINAR IS SCHEDULED IN TWO SESSIONS (MORNING AND AFTERNOON) WITH REPORTS BY REPRESENTATIVES FROM THE EEC, THE EUROPEAN COURT OF JUSTICE IN LUXEMBOURG, THE ACADEMY AND JURISDICTIONAL WORLD OF A NUMBER OF MEMBER STATES.

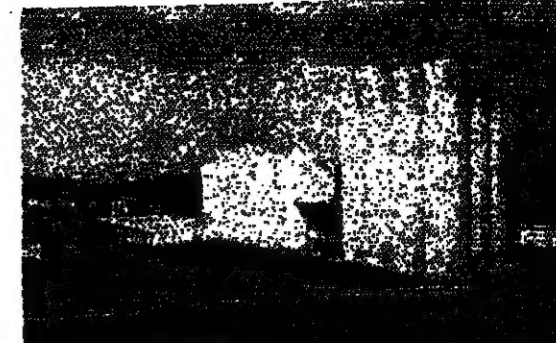
PARTICIPATION IN THE SEMINAR WILL BE LIMITED IN NUMBER. INTERESTED PARTIES ARE KINDLY REQUESTED TO CONTACT THE SEMINAR SECRETARIAT, ISTITUTO GRANDI INFRASTRUTTURE, PIAZZA CAMPO MARZIO 3 - 00186 ROME - ITALY (TEL. 39-6-6876661, FAX 39-6-6876578, TELEX 630110 IGI).

C.M.C. di RAVENNA

(Since 1901)



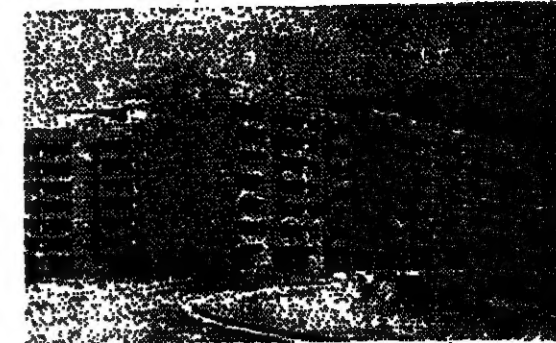
Umbelizi Dam - Pequenos Libombos (Mozambique)



Grain storage silos (Algeria)



Drinking water plant - Capaccio (FO) (Italy)



1500 homes under the rebuilding programme after the earthquake - Naples (Italy)

C.M.C. a leading Italian General Contractor able to carry out turn-key projects and arrange financing for the implementation of buildings, industrial plants, silos and milling plants, power stations, water treatment plants, sewerages, highways, dams, water supplies, irrigational and agricultural projects, land reclamation.

C.M.C. has undertaken projects in ITALY, ALGERIA, BOTSWANA, BURKINA FASO, CHINA, ETHIOPIA, IVORY COAST, MALAYSIA, MOZAMBIQUE, SUDAN, TANZANIA, ZIMBABWE

and is extending its activity also to SOUTH AMERICA



Cooperativa Muratori & Cementisti C.M.C. di Ravenna

Head Office: via Trieste n. 76 - 48100 Ravenna - ITALY
ph: 0039/544/428111 - fax: 0039/544/428554 - tlx: 551332 CMC RA I

ENGINEERING GLOBAL SYSTEMS

Bonifica, through the use of the most advanced and innovative technologies, supplies services for Engineering Global Systems in the field of territorial physical upgrading and maintenance, intended to cover the entire span of the implementation of projects. Thus, alongside the "classical" services (design studies, supervision of works and technical assistance) in the environmental, hydraulics, transport, agricultural, structures, building construction and economic sectors, the company takes care of procuring funds, defining the legal framework and organizational structures, environmental monitoring, staff training, etc. By this means, it supports the Client in order to attain - with quality - the set target, such as for example the rehabilitation of a historic centre, the economic development of an area, water management, safeguarding a cultural asset, a road, a bridge, a housing estate, and so forth. And to do this Bonifica relies on three critical factors of success which it considers essential and which represent its competitive "advantage": quality of the persons involved, quality of the technologies applied and quality of the organization.



bonifica
ITALSTAT. GRUPPO IRI

Viale Battista Bazzanzelli, 8
00155 Roma Tel. 06.406901
Telex 620621 Boniger I - Telefax 4063045



More concentration of production is needed, writes John Simkins

Competition from imports

STEEL

Italy is the second largest steel producer in the European Community (behind West Germany) and sixth largest in the world, but the steel manufacturers' association, Federacciai, says improved quality control is essential if the industry is to compete in the single European market.

Export is being made: 60 per cent of production is now certified by a quality control institute, set up by the producers in collaboration with consumers' representatives and the authorities.

But Milan-based Federacciai says that lax quality control enforcement partly accounts for a sharp increase in reinforcing steel imports from Turkey and Yugoslavia. Italy is Europe's biggest producer in this sector, with 5.5m tonnes (of which 1m tonnes are exported), while imports account for around 5 per cent of the market.

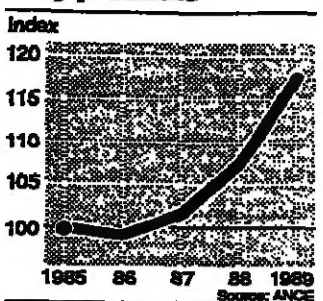
"Our civil servants are not doing enough to protect the Italian market against invasion from outside", says one Federacciai official.

The association also cites Italy's chronic energy shortage, aggravated by price rises following the Gulf crisis, as a threat to production, and fears power cuts this winter.

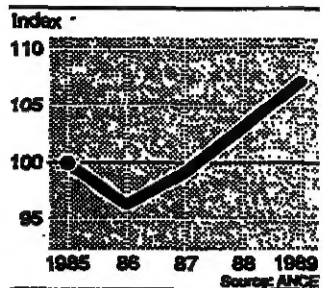
With an annual output of 25.5m tonnes, a turnover of £25,000bn (£12bn) and a 94,000 strong workforce, the industry comprises 120 crude steel manufacturers. Production is split evenly between the public sector, which is under the umbrella of Iva and concentrates on flat products, and the private sector, which is concerned mainly with long products. There are 60 private companies around the northern town of Brescia, while the Veneto region in the north-east has many small and medium-sized manufacturers. However, Federacciai believes the trend is to greater concentration.

The enormous public works programme for the World Cup boosted demand for rolled products from 4.5m tonnes in 1988 to 5.5m tonnes in 1989. That is expected to fall only slightly, and Federacciai is confident of continued heavy demand. The Christopher Columbus celebrations in 1992 are

Clay products



Cement



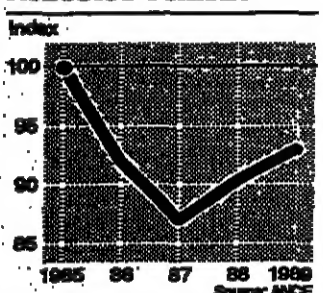
also expected to boost public works construction.

CEMENT

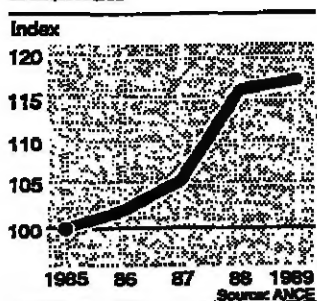
Cement makers have yet to make up the ground lost in the early 1980s and output is well below the maximum possible. Nonetheless, Italy remained the EC's largest cement producer in 1989, raising output by 4.2 per cent to 40.4m tonnes.

Per capita demand last year of cement in Italy, at 78kg, was the highest in the EC, but while capacity utilisation throughout all Italian industries has reached 81 per cent, cement makers are operating

Asbestos cement



Bitumen



at only 68.5 per cent. The trade association AITEC forecasts that this could fall to as low as 65.5 per cent in 1992.

AITEC fears falling infrastructure investment as Italy grapples with its budget deficit, noting that local authorities fail to take up all the public works funds allocated.

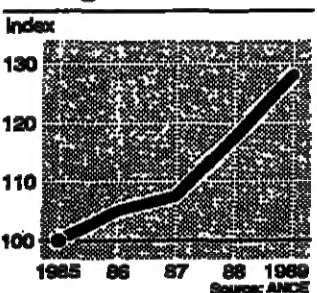
According to AITEC, investments in construction over the past three years have grown by 3.8 per cent, compared with a 10.7 per cent increase in GDP.

Cement prices, which are subject to controls, were increased in 1989 by 3.5 per cent, the first rise for three years, although AITEC says they remain 25 per cent below average EC prices.

However, despite low prices and low capacity utilisation, producers were unable to satisfy the domestic market. Imports of cement and clinker jumped 24.2 per cent to 2.4m tonnes last year, one-fifth of the market.

AITEC identifies the imports as coming principally from Greece, Yugoslavia and Cyprus, and claims that the assault on the Italian market has been achieved by dumping and unfair competition. The

Paving stone



trend is said to be continuing.

Italcementi, part of the Pesenti private sector group, is the largest producer, with 36.4 per cent of last year's total output. Italy has 48 manufacturing groups and 90 factories, giving it a much greater number of manufacturers than other European countries and a less concentrated financial base.

BRICKS AND TILES

The strength of the private sector housing market has boosted output and prospects are good for 1990 and 1991.

Sales rose from 17.6m tonnes in 1988 to 18.6m in 1989. This represents a growth of 5.7 per cent, a slightly lower increase than in 1988 but considered satisfactory by ANDIL, the trade association. At the same time, there was continuing concentration of production and the number of factories fell by 10 to 345, compared with 390 in 1988. These are divided among 281 companies; 81 of the factories account for 48 per cent of output. The workforce numbers 18,000, well down on the level of 32,000 in 1980.

Productive capacity, however, is still more scattered than in other European countries and there are many small and medium-sized companies, particularly in the south.

New productive capacity did not keep pace with the growth in output, which meant that capacity utilisation improved slightly to 75 per cent. But ANDIL warns that "such a high level of unused capacity among so many companies represents a danger in the event of a new contraction of the market".

GLASS

The strong sales of recent years continued in 1989, with output falling by less than 1 per cent to 3.61m tonnes. Capacity utilisation was high, at 93 per cent.

The trade association ASSOVIETRO reports a slight fall in hollow glass production because of a downturn in beer and mineral waters bottling. In flat glass, although the car market remained strong, temporary plant closures and a slightly lower demand for housing led to a 4.3 per cent drop in output.

THANKS TO Rome-based construction company Todini, the medieval city of Orvieto will be saved for future generations. Perched on a hill midway between Florence and Rome, dominating the valley of a Tiber tributary, Orvieto has tufa rock foundations, which are breaking up. "With its underground caves, drains, wells and water conduits, the hill resembles a geological gruyere", says Mr Aquilino Todini, nephew of the founder and a company executive.

Todini is the contractor in a project that will stabilise the city, one of the architectural jewels of Umbria. "We have completed the study phase, in which we had to employ geologists to explore and map Orvieto's underground maze. Special legislation will give the finance to undertake the task of anchoring the large mobile slices of tufa to the hill's central core", explains Mr Todini.

The company is engaged on a similar project in another Umbrian city, Todi. Here, as in Orvieto, medieval citizens excavated vaults and bored wells and channels in the clay on which their city stood, creating the conditions for twentieth century instability.

It seems appropriate that two projects placing Todini at the technological leading edge in the stabilisation of the foundations of whole historic city centres should be in the region where the company started. Todi is its birthplace.

Established by present chairman, Mr Franco Todini, in the late 1950s, the company won important contracts during the following decade, including work on the Florence-Rome Autostrada del Sole and the enlargement of the Terni steel works.

Reflecting the change of scale, Todini moved to Rome and changed its corporate form, from sole trader to joint stock corporation, adopting the name Società Generale Strade.

"It was important to move closer to the ministries and other state bodies", remarks Mr Aquilino Todini. A further corporate restructuring was undertaken last year in which Società Generale Strade disappeared, to be replaced by Todini Costruzioni Generali. Ranked 11th in Italy's table of construction companies, Todini's turnover last year was £30bn, continuing an upward trend. The trade journal Costruzione uses 1988 data to show that Todini, with £23bn turnover, closely rivals Impregit (£24bn) and Vianini (£26bn). Though projects in Orvieto, Todi and Venice



Todini is undertaking conservation work at the medieval Umbrian city of Orvieto

PROFILE: TODINI

Back to the future

(where Todini has undertaken special consolidation works on the island of San Giorgio Maggiore) win attention, the bulk of the company's works are in more routine areas.

Todini has built more than 400 km of autostrade and other major state highways. It is main contractor for a project to add a second track to the 100 km Bari-Taranto railway line, has worked on the expansion of Rome's Fiumicino airport and is restructuring and enlarging the Rome headquarters of the Carabinieri military police.

By the end of the 1980s Todini had regional offices in Venice, Perugia and Palermo, in addition to its Rome head office, and was working on projects at 150 different sites throughout Italy. Its payroll currently totals about 3,500.

"About 70 per cent of our work is in consortium with other partners, a characteristic of construction in Italy over the past five years", notes Mr Todini. Though this may be a suitable approach for very large works, in Italy it has been adopted even for projects

under £30bn. "This deforms the market and creates red tape and difficulties in project management. Although I would prefer to return to single contractor works, the emphasis on consortia seems likely to continue", he says.

In common with other Italian construction companies, Todini has forged temporary alliances to undertake specific projects. "We will probably look towards this approach when seeking foreign partners. This seems more natural than taking cross-shareholdings or making acquisitions", observes Mr Todini. However, he is open-minded about strategy for development.

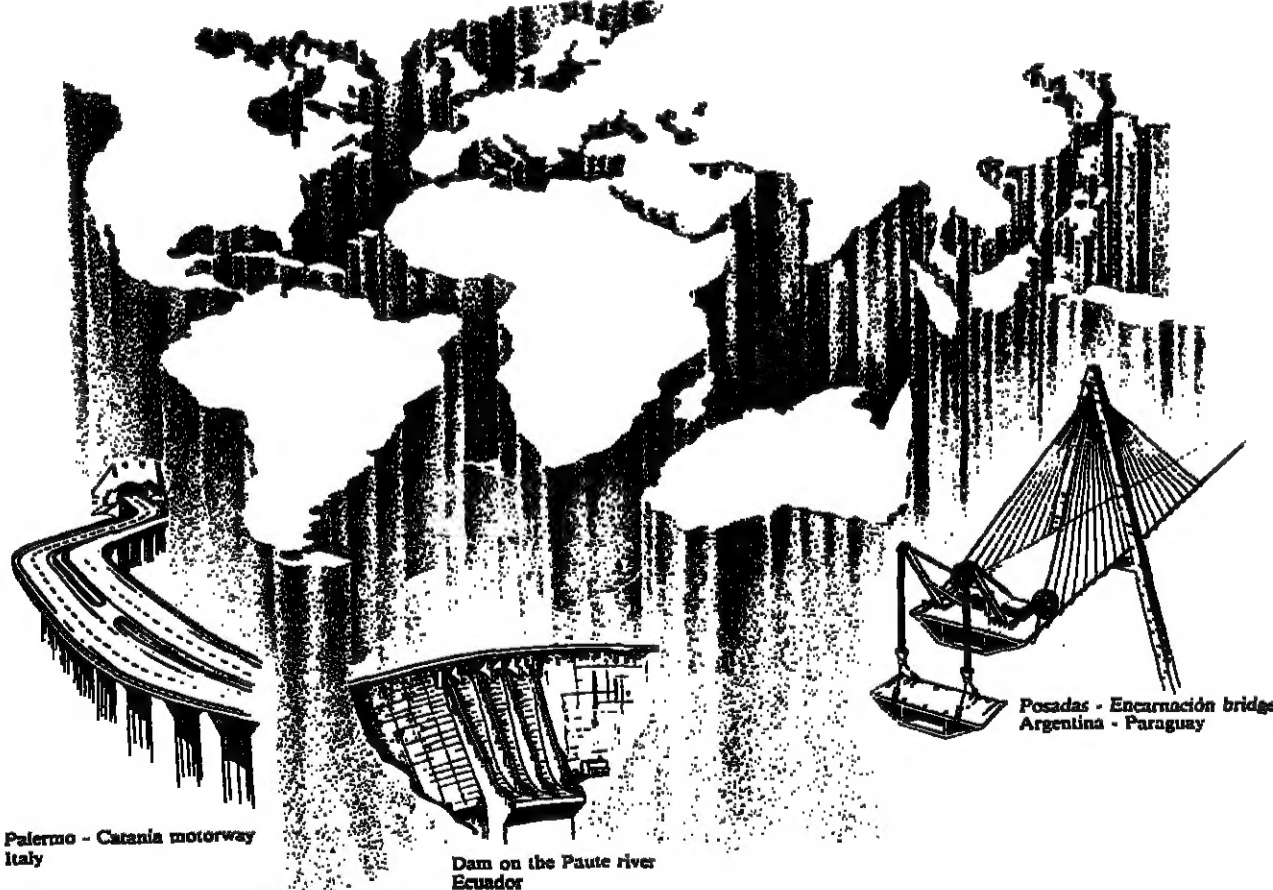
Medium and long-term plans include work outside Italy, which until now has been limited to a small project in Minorca. There are prospects of road projects in Yugoslavia and Algeria, but contacts initiated elsewhere have been suspended due to problems over project financing.

But Mr Todini is convinced that the barriers will be overcome. "Contracts are difficult to win outside one's own country, but this will change. The Single Market in 1993 will have a real impact", says Mr Todini. Indeed, over the past year Todini has been seeking French and British partners.

Apart from an order portfolio that stands at about £1,000bn, two other features suggest that Todini can face the future with confidence. First, the company gives considerable importance to special works and new technologies. Its research and development work has led to patents for the hot and cold recycling of bitumen. It was the first Italian company to introduce concrete traffic barriers of the New Jersey type, and its development of luminous panels for improving tunnel illumination has also improved road safety.

In addition to those on site at its consortia projects, Todini employs about 80 engineers and surveyors. Training and career planning are crucial. "This has led to very low levels of turnover, meaning that experience remains in-house. The strength of the company is in the number and quality of its staff", states Mr Todini.

The world needs great works



Palermo - Catania motorway Italy

Dam on the Paute river Ecuador

Posadas - Encarnación bridge Argentina - Paraguay

Organization manpower experience

The essential prerequisites for engineering and construction work are: past achievement; creative, organizational and management skills; the ability to satisfy different requirements and to handle contracts; experience in the fields of the transfer of know-how, counter trade and financial engineering

GIROLA
construction innovation

Impresa Castelli

MILANO (02) 592
VIA PIEMONTE 3
TEL. 02 - 5916
TELEX 527077 CASTI
FAX 02 - 591620

ROMA (06) 592
VIA BELLINI 24
TEL. 06 - 59151
TELEX 527077 CASTI
FAX 06 - 591535

LONDON (01) 592
20 MARK LANE
SOUTH OAK
TEL. 071 5927400
FAX 071 5927404

GENERAL BUILDINGS - HIGHWAYS / BRIDGES - WATERLINES /
SEWERS - MANUFACTURING PLANTS - POWERPLANTS -
IRRIGATION SYSTEMS - CIVIL AND INDUSTRIAL PRECAST
AIRPORTS

ITALIAN CONSTRUCTION 6

The battle against organised crime is delicately balanced. David Lane reports

Breaking the grip of the Mafia

WHEN MAFIA killers gunned down magistrate Rosario Livatino last month in the central Sicilian province of Agrigento, the state's impotence against organised crime was starkly revealed.

Mr Antonio Bargone, a Communist deputy (MP) from the Apulian heel who is deputy chairman of the Chamber of Deputies' justice commission and a member of Parliament's commission of enquiry into the mafia and criminal associations, says that the battle against organised crime in Sicily, Calabria and Campania is delicately balanced.

"Few in these regions use the legal system for matters like credit collection. When businessmen have problems of debt recovery they prefer to turn to local bosses whose organisations are more efficient", he says.

With organised crime's grip on business activity in the south, widespread involvement in the construction industry is inevitable. "It is part of their strategy to obtain political dominion. Organised crime can weave itself into the entire social fabric through public works contracts, boosting its presence and increasing its sphere of influence", observes Mr Bargone.

The large sums of money associated with public sector construction are also appetising, and the mafia, in its various regional disguises, is eager for a slice. Public works not only afford a means for extending influence, they also provide a legitimate activity.

Through ownership of construction companies, organised crime can establish close relations with the banking system. They provide a way of laundering money obtained from illicit activities like drugs, contraband and prostitution", explains Mr Bargone.

The Ministry of Public Works frankly admits to mafia infiltration in public works construction. However, the industry is defensive, preferring to note that organised crime is not limited geographically to Italy's mezzogiorno or sectorally to the construction business.

"Construction is involved because of the broader issue of the relationship between local politics and business. Businessmen are very dependent on decisions and choices made by politicians. In contrast to Anglo-Saxon countries, there is no separation between politics and the bureaucracy. Politicians are able to put enormous pressure on businessmen", says an executive at ANCE, the national association of construction companies.

Indeed, most recognise that companies, particularly in the south, are generally victims

rather than perpetrators of criminal activities.

The extractive industries and earthmoving are almost certainly the activities where organised crime grips most tightly. "By taking a stranglehold on materials and basic operations, the mafia is in a position to coerce legitimate firms. Moreover, these activities

The Ministry of Public Works frankly admits to Mafia infiltration

ties give employment to thousands of people, thereby extending the mafia's influence", says Mr Bargone.

That control over the supply of materials was confirmed less than a week after the murder of Mr Livatino, when the Naples court sequestered the assets of Eurocem, a cement importer and distributor. The chief of the region's 'guardia di finanza' customs and tax investigators said they had uncovered a construction pyramid belonging to the camorra's 'nuova famiglia' (new family).

Eurocem, a company with multinational equity from Lebanon and Panama as well as Italy, was managed by front-men. Imported cement from

Greece and Yugoslavia was sold at prices set by the camorra and backed by threats of sabotage against firms who failed to toe the line.

Contractors working on projects in the south are intimidated into buying from 'approved' suppliers and using 'approved' firms for earthmoving and transport. "Construction companies are even forced to pay for trips by empty lorries. Warning shots or bombs usually obtain the effect that the bosses want", says Mr Bargone.

Opportunities for infiltration by organised crime in the mezzogiorno are substantial. During the 1950s, 1960s and 1970s, huge sums were pumped into the backward south to provide an infrastructure that had been almost wholly lacking. Housing, schools and hospitals added to the massive volume of public works business.

More recently, the Irpinia earthquake that hit the Campania region east and south of Naples and adjacent Basilicata in November 1980 provided a bounty for local bosses. An astronomical level of expenditure coupled to abnormal results has led to a parliamentary commission of enquiry. Few doubt that there was large scale diversion of funds to the camorra. Further massive public spending on the World Cup sites offered further opportunities for organised crime.

The state has not, however, been totally passive. Measures have been introduced to block encroachment by organised crime. The Ministry of Public Works notes that two laws have been enacted, the latest in March. "In particular, more rigorous rules have been introduced to reduce the phenomenon of subcontract and the transfer of contracts to other firms suspected of mafia-type criminal associations."

Mr Bargone was a member of the parliamentary working party that introduced the law preventing subcontractors being given more than 40 per cent of contracts. The requirement to notify changes in ownership or management of firms after they have won contracts is another weapon being used against organised crime.

Nevertheless, much needs to be done. Mr Bargone is deeply concerned about the way in which the mafia is extending beyond the regional boundaries of Calabria and Campania. The lower part of the Lattium region, where Rome is situated, is now infiltrated and so is Mr Bargone's home region of Apulia. "People are becoming accustomed to live with the mafia rather than trying to combat it", he says. "Legislation needs to be updated and more resources dedicated to fighting organised crime."

ENGINEERING AND CONSTRUCTION OF PLANTS WORLDWIDE

- Chemicals
- Fertilizers
- Petrochemicals
- Fibers
- Pharmaceuticals
- Biotechnologies
- Agro-Industry
- Food Industry
- Industrial Fermentations
- Infrastructures
- Environmental Engineering and Effluents Treatment
- Energy

TECNIMONT

Gruppo Ferruzzi

Viale Monte Grappa 3 - 20144 Milan - Italy
Tel. (02) 6270.1 - Tx. 323386 TCM I
Fax (02) 6270.9534

FINANCIAL TIMES
1990 RELATED SURVEYS

| | |
|---------------------|------------|
| Property Review | February 9 |
| Transport Links | April 5 |
| Property Management | April 6 |
| Italy | April 17 |
| Holidays in Italy | May 19 |
| Europe 1992 | July 2 |
| Italian Industry | October |
| Italian Banking | November |

FOR ADVERTISING INFORMATION: Contact LINDSAY SHEPPARD
071-873-3225

FOR EDITORIAL INFORMATION: Contact DAVID DODWELL
071-873-4090

HOUSING

Purchases pick up

HOUSE CONSTRUCTION

| Year | Total |
|------|---------|
| 1982 | 355,615 |
| 1983 | 335,533 |
| 1984 | 351,765 |
| 1985 | 296,583 |
| 1986 | 247,768 |
| 1987 | 226,402 |
| 1988 | 196,857 |
| 1989 | 229,385 |
| 1990 | 250,175 |

Source: Ecosfera

HOUSEBUILDING has risen sharply during the past two years as the Italian economy has grown and individual spending power has increased. However, the market may run out of steam; international interest rates have risen and pressure on the economy is mounting.

In the public sector, the emphasis will be on reducing expenditure as the government battles with a mounting public sector debt.

Last year, the number of new homes constructed rose by 9 per cent, from 229,385 to 250,175. Since 1985, the annual total of homes built by construction companies has risen by one quarter, according to Ecosfera, an independent research organisation for the construction industry.

The bulk of these homes have been built in the private sector. Public sector construction accounts for about one-tenth of new houses, although this can rise to as much as 50 per cent in some large cities.

Most homes are built by small and medium-sized private, mostly family-owned, companies. The majority of large companies specialise in large public civil engineering works, although this is starting to change. Private companies like Lodigiani have recently been breaking into both private commercial and residential markets, although the level of interest remains small.

About 70 per cent of Italian families own their own home, says Ecosfera. Home ownership has risen sharply during the 1980s as the private rental market has shrunk.

Spending on public housing last year declined to L1180bn, a fall of almost half from the L2324bn spent in 1988 and the fifth year in succession that public investment has fallen.

"The main causes", according to Ecosfera, "are the completion of some extraordinary building programmes in a ten year programme and the failure to implement projected spending targets during the past two years."

Investment by private landlords fell sharply during the mid-1980s. This was as a result of laws introduced at the end of the 1970s restricting rent increases and making it difficult for landlords to evict tenants.

The market has recently improved and investment by private landlords increased as market rents have risen. Rent levels are up to three times legal levels, which are rarely applied. Few appeals against rents make it to the courts.

House and flat purchases by homeowners have also picked up after a difficult period during the mid-1980s, when prices fell in real terms.

The number of homes built annually fell from almost 357,000 in 1982 to low of almost 199,000 in 1988. During the last two years, however, prices and purchases have risen sharply.

The market has been assisted by economic growth and interest rates which have fallen from about 13 per cent to currently about 13-14 per cent, says Ecosfera.

Gross domestic product has risen steadily during the past decade; wages are also higher in real terms.

Housing has become a good investment once more as inflation and interest rates have fallen. The percentage of families owning their own home has risen from just under 65 per cent in 1961 to just over 71 per cent in 1988, according to the trade federation, ANCE.

The fear is that as international interest rates rise and the world teeters closer to recession that private sector investment in commercial as well as residential property will suffer and the market will retreat over the next 18 months.

Andrew Taylor

EUROMOBILIARE

PROJECT FINANCE * SECURITIES UNDERWRITING
CORPORATE FINANCE * ASSET MANAGEMENT
TREASURY PRODUCTS

BANCAEUROMOBILIARE

WILL BE PLEASED TO HANDLE ALL YOUR INTERNATIONAL BANKING NEEDS

EUROMOBILIARE S.p.A.
Via Turati, 9
20121 MILANO

Tel. 039 2 62041
Fax 039 2 653207
Tx 312541 EUSEC I

A MIDLAND GROUP COMPANY

COGEI: A 40 YEAR LONG EXPERIENCE.



ROAD NETWORKS

IRRIGATION SYSTEMS

SEA WORKS

INDUSTRIAL BUILDINGS

RAILWAY WORKS



1000 EMPLOYEES AND YARDS ALL OVER ITALY PLACE COGEI, ITALIAN-PRIDE GROUP, AMONG THE LEADER COMPANIES IN THE SECTOR OF GREAT WORKS. 40 YEARS OF EXPERIENCE, MODERN BUILDING TECHNOLOGIES AND ENTREPRENEURIAL FARSIGHTEDNESS HELP TO BETTER THE QUALITY OF LIFE.

KILOMETRES OF ROADS, TUNNELS, RAILWAY AND SEA WORKS, IRRIGATION SYSTEMS, DAMS AND LAND INTERVENTIONS, ARE CARRIED OUT IN HARMONY WITH "PROGRESS".

COGEI

METHOD AND FUTURE OF CONSTRUCTION.

O F B U I L D I N G

DAMS, BRIDGES, ROADS, INDUSTRIAL SETTLEMENTS, HOUSING COMPLEXES: THE MAJOR WORKS OF CIVIL ENGINEERING THAT RECCHI BUILDS THROUGHOUT THE WORLD WITH THE EXPERIENCE OF A COMPANY WHICH FOR OVER HALF A CENTURY HAS CHOSEN RESEARCH, TECHNOLOGY AND INNOVATION TO BACK THEIR OWN PROFESSIONALISM, A CHOICE THAT HAS MADE RECCHI CAPABLE OF FACING THE DEVELOPMENT AND COMPLETION OF PROJECTS - EVER GROWING IN NUMBER AND DEGREE OF COMPLEXITY - AND AFFIRM THEMSELVES AS AN IMPORTANT INTERNATIONAL GROUP WITH 41 AFFILIATES, A GROUP THAT EVERYWHERE IN THE WORLD GIVES EVIDENCE OF THE CONTINUITY OF A LARGE TRADITION OF BUILDING.

RECCHI

Recchi S.p.A. Costruzioni Generali

DEL FAVERO

CIVIL ENGINEERING CONSTRUCTION COMPANY

A worldwide tradition of success in finding and executing creative solutions to complex civil engineering problems.

DEL FAVERO S.P.A.

38100 TRENTO - Via Degasper, 79

Tel.+39461/902111 - Telex DELFA I 400252 - Telefax+39461/902297

MILAN - Via Buonarroti, 39 - Tel.+392/4814344 - Telefax+392/48008210

ROME - Via E. De Cavalieri, 11 - Tel.+396/8841445 - Telefax+396/8844759